# DISCUSSION PAPER

## OPTIONS TO IMPROVE THE COMPETITIVENESS OF PORTS IN BRITISH COLUMBIA

### Volume I – Final Report

**Prepared for: BC Ministry of Employment and Investment**

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**March 2001**

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# EXECUTIVE SUMMARY

## *Purpose*

The purpose of this review is to address the following questions:

- Are British Columbia's ports competitive now, are they likely to be competitive in the long term?
- What are the factors that affect ports competitiveness and which factors have been or are being addressed?
- What options are available to the provincial government and local governments to take further action to improve ports competitiveness?
- What are the economic, social, environmental and public acceptability implications of each option?

The impetus for this review was a March 2000 report submitted to government by the BC Ports Competitiveness Committee, a group representing port authorities and terminal operators and owners in the Port of Vancouver, Port Fraser, Port North Fraser and the Port of Prince Rupert. The focus of this review is major, commercial ports in British Columbia. These are the ports that play an important role in the import and export of goods, including the six port authorities – Port of Vancouver, Fraser Port, Port North Fraser, Port of Prince Rupert, Port of Nanaimo and Port Alberni. Major industry or commodity specific private ports such as Squamish and Kitimat have been included for comparison purposes where appropriate.

This report is the result of a process that was facilitated by an independent consultant. A Review Group was established representing port authorities, port industry stakeholders, labour, local governments (including two mayors from port municipalities and a UBCM staff person), various provincial government agencies and the federal government. The process was directed toward gathering facts and the views of the various interested parties. The report is intended to provide the provincial government with the information needed to decide whether action should be taken to address British Columbia port competitiveness issues. This report does not represent a consensus but it is intended to provide a synthesis of the views of the various parties. The first draft of the report was provided to Review Group members for comment. The second draft of the report, incorporating initial comments was distributed to Review Group members for further comment and to the other port authorities, port municipalities and other interested parties for review and comment. This final draft of the report reflects the comments received by February 28, 2001.

## *Background*

Ports are harbours, the businesses that operate in and around harbours and the entities that administer the harbours. They are complex systems of public and private sector enterprises that provide a key link between ground and water-based transportation and are therefore a link in the overall transportation system. Ports are comprised of a range of entities, including:

- terminal facility owners and operators, stevedoring and cargo handling companies involved in the handling of goods, or in the case of cruise ship terminals, people travelling through the port,
- other marine oriented businesses not directly related to the movement of goods such as shipbuilding and repair or fish processing,
- businesses not related to the transportation of goods or people or to marine services which occupy waterfront land such as the Fullerton property development in North Vancouver,
- port labour,
- shipping agents,
- vessel service suppliers (suppliers of tug, fuelling, repair and maintenance, insurance and other services to water carriers),
- port administrators, and other government bodies.

Much of this report is concerned with the use of "real property" located on or near tidewater for "ports purposes." Not all property adjacent to tidewater in a given harbour is necessarily owned by the port authority. The property in most ports is a patchwork of Canadian Marine Act (CMA) property managed by the port authority, privately held property and property owned by provincial and local governments. In addition, the majority of terminal operations and cargo handling functions are undertaken by private sector firms who either own port land, have leased land and water from the port authority, or have an operator's agreement with the port authority. Port authorities are federal government agencies and ports are primarily under federal jurisdiction. However, there are several aspects of port activity that are affected by provincial and municipal government actions, especially the activities of the private sector enterprises operating in the ports, such as terminal operators.

Canada is heavily dependent on international trade. It is the seventh-largest exporter and the eighth-largest importer among trading nations and exports more than one-third of the value of goods it produces. Accordingly, Canada's transportation system is crucial to the country's global competitiveness. In addition, transportation is a key component of the national economy in its own right. In 1998, transportation itself accounted for $32 billion or 4.5 percent of Canada's total GDP.

The ports system forms a critical part of this national transportation system, supporting the movement of people, vessels and the transfer of cargo. Transportation by water is a highly efficient and Canada has benefited from its natural waterways and deep water harbours. The Canadian port system handles an average of 375 million tonnes of goods on an annual basis – 75 percent of which is moved to or from foreign ports.

The Port of Vancouver alone handled 72 million tonnes of goods in 1999, significantly more than any other Canadian port and more than any other port on the West Coast of North America. The total amount handled by all British Columbia ports was 133 million tonnes. Vancouver is also an important port of call for the cruise ship industry and in 1999 handled 950,000 cruise ship passengers.

British Columbia ports are also important contributors to the local and provincial economies. According to a 1999 report, the waterfront industry in the Greater Vancouver Regional District (GVRD) is responsible for creating 43,000 jobs directly and another 29,000 indirectly. The total

contribution of the GVRD waterfront industry to provincial GDP is about $10 billion. The Port of Prince Rupert is essential to the economic livelihood of the Prince Rupert area and other ports (such as the ports in Kitimat and Port Alberni) are essential to support local industry.

## *Ports Competitiveness*

The question of whether British Columbia are and will be competitive has been addressed by reviewing 21 relevant reports and studies, described in Appendix E. These reports highlight a number of themes, including:

- international trade is critical to the Canadian economy, the freight transportation system in British Columbia plays a significant role in ensuring Canada's competitiveness in the world market, and BC ports are a critical part of this system;
- BC ports costs[1] paid by shippers are higher than in US ports for some commodities, lower for others;
- ports costs are a small proportion of overall transportation costs and for the commodities that travel through BC ports, overall transportation costs are lower than for alternative routes;[2]
- a weak Canadian dollar has contributed to the competitiveness of Canada's transportation system;
- customers and shippers have increasing expectations and demands respecting service and reliability, which are significant factors in the decision about what port to use, sometimes outweighing transportation costs; and
- although British Columbia ports are at present competitive, there are a number of challenges to be faced and issues to be addressed if ports are to maintain their competitive position, including the competitive threat resulting from investment in US ports, the structure and financial arrangements associated with Port Authorities, encroachment on port land, the tax burden, particularly property taxation, labour relations and land transportation issues.

This review concludes that there is an emerging port competitiveness issue and that there are significant barriers to investment that will prevent British Columbia ports from making the investments needed to remain competitive in terms of service and capacity given the level of investment currently in US west coast ports.

All of the issues mentioned above are significant in terms of providing the investment climate necessary for ports to remain competitive. Several of them, including land-side transportation, federal port structure, labour relations are being addressed in other forums and are beyond provincial and local jurisdiction. Therefore the Review Group directed that options developed in this report focus on provincial government taxation, property assessment and taxation and land use policy.

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[1] Ports costs are the costs associated with cargo handling and with the movement of ships through the port, such as pilotage and berthing fees but does not include transportation costs associated with land or water transportation.

[2] That may change with the proposed Cherry Point port development in Washington State, which would have access to the same land transportation routes as the Lower Mainland ports in British Columbia, making it an attractive alternative for current BC port traffic if ports costs are lower.

Property assessment and taxation is complex, especially as it applies to port property, so the report provides some additional background on this issue. A key feature is that port terminal operations are assessed and taxed in a property class known as Class 4 – Major Industry.

Total municipal property taxes paid by the Major Industry class of taxpayers in the Lower Mainland municipalities with a port industry presence in the year 2000 was about $20.9 million,[3] with about $14.9 million or 71 percent from port industries. Total 2000 property taxes paid by port industries in the Lower Mainland (including provincial non-residential school property tax) was about $19.3 million. According to the Port of Vancouver, property tax paid by terminal operators is about 9% of their operating costs on average, ranging from 6% to over 12%.

In several jurisdictions the total property tax rate applied to property in the Major Industry class is in excess of 5% ($50 per $1,000 of assessed value). The weighted average municipal property tax rate plus the provincial non-residential school property tax rate for the Major Industry property class in Lower Mainland municipalities with a port industry presence was $46.44 per $1,000 of assessed value, up from $34.12 in 1988.[4] In the US ports of Seattle, Tacoma and Portland, the average of property taxes and similar levies was US$13.52 per US$1,000 of assessed value in 1998[5].

When new capital investment attracts a tax of 4% to 6% in every year, regardless of the income generated by the property, it is difficult to earn a sufficient return in a competitive market to justify the investment.

There are also municipalities in the Lower Mainland with tax rates for Major Industry property that are less than half of the highest rates. That represents a significant difference in the costs that must be supported by new investment in different locations.

Port stakeholders point to one circumstance in particular that demonstrates these issues – the case of Vancouver Wharves. Vancouver Wharves is a port terminal in the District of North Vancouver that was purchased by the BC Rail Group in 1993. As a result, it became exempt from property taxation because of Provincial government ownership, although payments in lieu of taxes equal to the full municipal property tax amount were paid up to 1996. At that time, the provincial government determined that Vancouver Wharves required significant capital investment to remain competitive with the US but that it could not afford to pay higher property tax amounts. Beginning with 1997, payments in lieu of property taxes were capped at the pre-investment level of $2 million and a $110 million capital expansion proceeded. If not for the cap, Vancouver Wharves would have paid $5.8 million in 2000 rather than the $2 million actually paid. The District of North Vancouver has reportedly requested that the provincial government require Vancouver Wharves to make payments equal to the full amount of the municipal property tax.

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[3] See Appendix D, Table 6.

[4] See Table D6, Appendix D. In comparison, the average residential property tax rates for the same municipalities were $12.93 and $7.07 per $1,000 of assessed value in 1988 and 2000 respectively.

[5] Nowadnick, James, Overview of Property Tax Policy, Ports of Seattle, Tacoma and Portland, November, 1999.

The port authorities themselves are exempt from property tax because they are federal agencies. Payments in lieu of tax are made by some port authorities but not all. Payments in lieu of tax on port land is an issue for both ports and local governments.

## *Options*

Several options for addressing the issues raised have been developed and their implications analyzed. The analysis has been done using several categories of implications, including the contribution the option would make to achieving the objective, the economic, social and fiscal implications, the administrative feasibility of the option and the likely public acceptability. In order to do that, a statement of the objective of the exercise was agreed by the Review Group, as follows:

> "Given the strategic economic importance of ports as a key element of the Canadian transportation system, and as a significant economic player in their own right, **the objective is to enable BC ports, terminal operators and other port businesses to continue to grow and expand** in order to provide Canadian businesses (importers and exporters) with the transportation infrastructure and efficient services they need to successfully trade and compete in world markets".

The following is a list of the options identified and evaluated in the report:

1. Status Quo
2. *Local Government Act* Guideline on the Importance of Ports
3. Port Accord on Property Taxation and Land Use
4. Limit Local Government Tax Rate Authority on Ports property
5. Remove Ports property from the Major Industry Property Class
6. Investment Property Tax Holiday
7. Port Land Reserve/Assessment of Port Land
8. Exempt Vacant CMA Land from Assessment
9. Provincial Investment Tax Credit
10. Exempt Port Terminals from PST on Machinery and Equipment
11. Exempt Port Industries from the Corporation Capital Tax
12. Protect the Ability to Operate on Port property
13. Establish a Land Use Planning Process for Port property
14. Government Infrastructure Grants
15. Seek Federal Changes

The following table summarizes the analysis of the options:

| Option | Effectiveness | Economic Implications | Social Implications | Fiscal Implications | Administrative Feasibility | Public Acceptability |
|---|---|---|---|---|---|---|
| 1 Status Quo | Advocates of the objective believe it will not be achieved without action - others disagree with the objective or the need for action. | Advocates believe there will be significant economic costs - others disagree | Social benefits for those inconvenienced by the port if it declines - costs for those who lose income or jobs - potential environmental costs due to lack of investment. | Baseline - against which others are compared. | No implications. | Cancellation of investments and job losses may result in public outcry. |
| 2 Municipal Act Guideline on the Importance of Ports | Some positive impact but unlikely significant. | Consistent with "Effectiveness." | None identified. | Depends on actions of local governments. | None identified. | Unlikely to be much reaction pro or con. |
| 3 Port Accord on Property Taxation and Land Use | Potential for contribution to achieving the objective, depending on the nature of the accord. | Consistent with "Effectiveness." There could be additional economic implications depending on the measures adopted. | Negotiated accord implies few negative social implications. Potential equity concerns over special treatment. | Likely local and provincial fiscal implications, depending on the agreement. | May require legislation depending on the agreement. | Unlikely to be much reaction pro or con. |
| 4 Limit Local Government Tax Rate Authority on Ports Lands | Likely to make a significant contribution by reducing property taxes, depending on specific measures. | Consistent with "Effectiveness." Benefits to port industries may be partially offset by increased costs to other taxpayers. Reduces market distortion. | Loss of local government autonomy. | Impact on local government depending on current tax rates resulting in increases to other tax rates, other revenue sources or service cuts. | Relatively complex legislation required. | Resulting residential property tax increases may result in public outcry. Likely significant local government opposition and calls for change by other taxpayers. |
| 5 Remove Ports Lands from the Major Industry Property Class | Potential for contribution to achieving the objective by reducing property taxes and assessment-based investment disincentive. | Similar to Option 4. | None identified. | Similar to Option 4 plus a small fiscal cost to the provincial government. | Relatively simple legislative change. | Resulting residential property tax increases may result in public outcry. Local government opposition less likely. |
| 6 Investment Property Tax Holiday | Potential for contribution to achieving the objective by removing property taxation investment disincentive. | Consistent with "Effectiveness." Could be viewed as a subsidy, increasing market distortion. | Few if voluntary, some loss of local autonomy if mandatory. Possible equity issues vis a vis recent investment or variations by municipality.. | Little or no impact. | Considerable effort required to develop the program, based on previous model. | Unlikely to be much reaction pro or con but could generate calls for similar treatment by other industries. |
| 7 Port Land Reserve/Assessment of Port Land | Contribution in terms of lower taxes, which could be reversed by local governments, and contribtion from reduced encroachment. | Consistent with "Effectiveness." | None identified. | Some loss of local government revenue which would need to be offset and small loss of provincial revenue. | May create some challenges for BC Assessment Authority. Legislation required. | Unlikely to be much reaction pro or con. |

## Options to Improve Ports Competitiveness



| Option | Effectiveness | Economic Implications | Social Implications | Fiscal Implications | Administrative Feasibility | Public Acceptability |
|---|---|---|---|---|---|---|
| 8 Exempt Vacant CMA Land from Assessment | Contribution in terms of lower taxes, which could be reversed by local governments. | Consistent with "Effectiveness." | None identified. | Some loss of local government revenue which would need to be offset and small loss of provincial revenue. | Relatively simple legislative change. | Unlikely to be much reaction pro or con. |
| 9 Provincial Investment Tax Credit | Direct incentive to invest, depending on profitability. | Consistent with "Effectiveness." There are economic arguments against such subsidies, which distort markets - however, this market may already be distorted. | None identified. | Direct fiscal cost to the provincial government, with the amount depending on the specifc program. | Relatively complex legislative change and administrative requirements since, unlikle the existing program, there is no existing federal program. | Unlikely to be much reaction pro or con. Would increase pressure from others seeking similar program. |
| 10 Exempt Port Terminals from PST on Machinery and Equipment | Direct reduction in the cost of investment in machinery and equipment, contributing to the objective. | Consistent with "Effectiveness." If applied only to port industries, may be viewed as an unfair subsidy. | None identified. | Direct fiscal cost to the provincial government estimated at $6 million per year on average. | Relatively complex legislation and administration required. Unlike PST exemotion for manufacturing and processing equiment, there is no model in other provinces. | Unlikely to be much reaction pro or con. Would increase pressure from others for similar exemptions. |
| 11 Exempt Port Industries from the Corporation Capital Tax | Would contribute by removing a disincentive to investment. | Consistent with "Effectiveness." If applied only to port industries, may be viewed as an unfair subsidy. | None identified. | Direct fiscal cost to the provincial government estimated at $1 million per year on average. | Relatively complex legislation and administration required. | Unlikely to be much reaction pro or con. Would increase pressure from others for similar exemptions. |
| 12 Protect the Ability to Operate on Port Lands | Would contribute by reducing risk. | Consistent with "Effectiveness." | Some limitation of local government autonomy. | None identified. | Relatively complex legislation required. | May generate outcry from those unable to obtain restrictions on port activities. |
| 13 Establish a Land Use Planning Process for Port Lands | Potential for contribution to achieving the objective, depending on the nature of the resulting plan. | Consistent with "Effectiveness." | None identified. | None identified. | Unclear if legislation would be required. Similar to existing land use planning processes. | Unlikely to be much reaction pro or con. |
| 14 Government Grants for Infrastructure and/or Private Sectro Investment | Direct government contribution to achieving the objective. | Consistent with "Effectiveness." Would clearly be a subsidy. Difficult to determine how much or which projects to support. | None identified. | Direct fiscal cost to the provincial government equal to the grants, partly offset by revenues generated by additional economic activity. | Relatively complex administartion required. | May be concerns about diversion of funds from other public priorities. |
| 15 Seek Federal Changes | Depends upon success in generating federal action. | Consistent with "Effectiveness" and depends on specific federal action. | May arise if British Columbia is advantaged above other regions. | May be federal fiscal impacts, depending on action taken, if any. | No administrative issues with seeking changes - federal administrative issues depend on actions, if any. | Unlikely to be much reaction pro or con. |

## *Concluding Comments*

The following are observations and conclusions that arise from this review:

- In spite of current strong performance, there are legitimate concerns among British Columbia's commercial, multi-purpose ports about their long term competitiveness.
- The primary concern is that significant new capital investment is required but there are significant barriers to investment at the present time.
- There are legitimate concerns about both the competitiveness of BC ports with US west coast ports and competitive equity among firms in port industries in British Columbia.
- Investment currently being made in the US or being planned has raised the level of urgency associated with this issue. In particular, the planned investment at Cherry Point, Washington State with its proximity to the Lower Mainland and access to the same land transportation network as the British Columbia ports means that barriers to investment will likely have real negative impacts on British Columbia port activity.
- There are a number of issues that have been identified as relevant to the ability of British Columbia ports to make needed investments, including the structure and financial arrangements related to port authorities (governance, number of authorities, port fees, the federal stipend (dividend) and payments in lieu of property tax), labour relations, land-side transportation infrastructure, provincial taxation, property assessment and taxation and land use policy.
- The foregoing answers the questions "Are British Columbia ports now competitive and are they likely to be competitive in future?" and "What are the factors of competitiveness?" In accordance with the Terms of Reference and the direction of the Review Group, the remainder of the review focused on several specific issues that are primarily within provincial jurisdiction and that are not currently being addressed in other venues.
- The specific issues for which options have been developed relate to provincial taxation, property assessment and taxation and land use policy.
- Some of these specific issues (i.e. property taxation and land use issues) relate to the conflict between national or provincial interests and local interests – it is difficult at the local level to base decisions upon questions of national economic interests when local residents have other priorities.
- It is recognized that dealing with the specific issues for which options have been identified in this report will only solve part of the problem. Other issues including transportation infrastructure and labour relations have the potential to also have a significant impact on competitiveness. However, the issues upon which the options focus have been demonstrated as legitimate and important factors in the ability of ports and port industries to make the investments they need to remain competitive.

# INTRODUCTION

## *Purpose of the Review*

The purpose of this review is to address the following questions:

- Are British Columbia's ports competitive now and are they likely to be competitive in the long term?
- What are the factors that affect ports competitiveness and which factors have been or are being addressed?
- What options are available to the provincial government and local governments to take further action to improve ports competitiveness?
- What are the economic, social, environmental and public acceptability implications of each option?

The impetus for this review was a March 2000 report submitted to government by the BC Ports Competitiveness Committee, a group representing port authorities and port terminals in the Port of Vancouver, Port Fraser, Port North Fraser and the Port of Prince Rupert. The March 2000 report of the Ports Competitiveness Committee raises a number of issues related to the competitiveness of major BC ports and suggests solutions for dealing with these issues.

In response to that report, the provincial government directed that the Ministry of Employment and Investment form a multi-stakeholder review group to further examine the issue. Consistent with this direction, the Ministry of Employment and Investment organized the Ports Competitiveness Review Group (Review Group) composed of members of all three levels of government,[6] port owners, industries operating in the ports and port workers. In accordance with the Terms of Reference for the review, the Review Group was to give further consideration to the factors affecting ports competitiveness and how best to address these factors. Initial government direction was for the Review Group to report back to government by December 2000. See Appendix A for the Terms of Reference. Appendix B provides a list of the review Group members and others that have provided comments during the process.

## *Scope*

The ports system in British Columbia is extensive, ranging from small facilities that are the sole provider of transportation access to remote regions, to relatively small harbours providing services to a community or local industry to major commercial ports that are essential to the domestic and international movement of a wide variety of goods and people.

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[6] Note that there were three local representatives appointed, including a Lower Mainland Mayor, a Mayor from another major port and a senior UBCM staff member.

The focus of this review is major, commercial ports in British Columbia. These are the ports that play an important role in the import and export of goods, including six port authorities – Port of Vancouver, Fraser Port, Port North Fraser, Port of Prince Rupert, Port of Nanaimo and Port Alberni. Also included for comparison are the private ports of Squamish and Kitimat.

## *Process*

Perrin, Thorau and Associates Ltd. was retained as an independent consultant to facilitate the review process, to compile existing research in the area the competitiveness of BC ports and to draft a report.

The Review Group represented a variety of interests with divergent opinions and positions in many areas. There was no expectation that the group would reach consensus on what, if anything should be done. Rather, the process was intended to ensure that all of the interested parties had the opportunity to have their views considered and reflected in the report so that ultimately informed decisions could be made. Therefore, the report does not make recommendations. Nevertheless, the Ministry of Employment and Investment will use the report to make recommendations to government and any decisions which ensue will be announced and implemented in due course, possibly after further policy development and/or consultation.

The first two questions, as to whether or not BC ports are competitive or will be competitive in the long run and the factors of competitiveness were addressed primarily through a review of the extensive literature available about the competitiveness of British Columbia and Canadian ports. After review of the initial work on competitiveness and its factors, specific issues within provincial and local jurisdiction and options to address those issues were raised by members of the Review Group. Analysis of the implications of those options was based on publicly available information and through the comments of the Review Group and other interested parties.

Drafting of the report was an important element in the process. Initially work on competitiveness and its factors was prepared and reviewed by the Review Group. Following several meetings of the group and extensive discussion of the issues, a first draft of the report was provided to the Review Group members for review and comment.[7] A second draft, incorporating initial comments, was distributed to Review Group members for further comment and to the other five port authorities, port municipalities and other interested parties not represented on the Review Group for initial comment. This final report reflects comments received by February 28, 2001.

## *Organization of the Report*

The remainder of this report is organized into four sections as follows:

- **Background** – a discussion of the context to provide background about the organization of British Columbia's ports and their role in the British Columbia and Canadian economies;
- **Are BC's Ports Competitive?** – a review of whether British Columbia's ports are competitive and, if not, what the implications are;

[7] Minutes of all Review Group meetings are available upon request.

- **Factors of Competitiveness** – a discussion of the factors of competitiveness for BC ports and the issues affecting ports competitiveness and processes currently underway to resolve issues;
- **Options** – identification and analysis of options for provincial and local government to take further action to improve ports competitiveness; and
- **Concluding Comments** – although the Terms of Reference specify that there are to be no recommendations resulting from the review, there are some more general conclusions that can be derived from the information provided.

# BACKGROUND

## *What are Ports?*

Ports are harbours, the businesses that operate in and around harbours and the entities that administer the harbours. They are complex systems of public and private sector enterprises that provide a key link between ground and water-based transportation and are therefore a link in the overall transportation system. This section describes in more detail what ports are and how they are organized and administered, as well as providing some background information about the role of the transportation system and the ports in the economy.

Ports are an amalgamation of public and private sector enterprise and are comprised of a range of entities, including:

- terminal facility owners and operators, stevedoring and cargo handling companies involved in the handling of goods, or in the case of cruise ship terminals, people travelling through the port,
- other marine oriented businesses not directly related to the movement of goods such as shipbuilding and repair or fish processing,
- businesses not related to the transportation of goods or people or to marine services which occupy waterfront land such as the Fullerton property development in North Vancouver,
- port labour,
- shipping agents,
- vessel service suppliers (suppliers of tug, fuelling, repair and maintenance, insurance and other services to water carriers),
- port administrators, and other government bodies.

These entities all use the water in the port as well as land adjacent to the harbour water. Chart 1 provides a representation of the various functions and land uses related specifically to the movement of goods through ports.

Until recently, all ports, regardless of their size or location were administered by the federal government either directly or as subsidiaries of the Canada Port Corporation, a federal Crown corporation. However, with the passage of the *Canada Marine Act (CMA)*, which became effective on March 1, 1999, the ports system has been reshaped to reduce the number of ports and to create a more commercial system. Under the CMA there are three types of ports:

***Canadian Port Authorities*** – ports that are deemed essential to domestic and international trade, and as a group make up the "National Ports System" (NPS). The qualifications for becoming a port authority are that the port is vital to domestic and international trade; is financially self sufficient; serves large and diversified markets; and has major transportation links. Ports forming the NPS were formerly Ports Canada Local Ports Corporations, major Canada Ports Corporations, Divisional Ports, and most Harbour Commissions. The port authority provisions under the CMA

are designed to make it easier for port authorities to reduce overhead costs and make faster business decisions.

***Remote Ports*** – ports that, in the interests of public safety and economic necessity, Transport Canada will continue to maintain. Remote ports are defined as those where marine transport is the primary mode of transportation for the movement of people and goods for at least some portion of the year; there is dependence on existing Transport Canada fixed wharf structure alongside which vessels can be tied up safely; the community is not connected by a road network to another site with a wharf and or not connected to a major centre by year round surface means or regular air services.

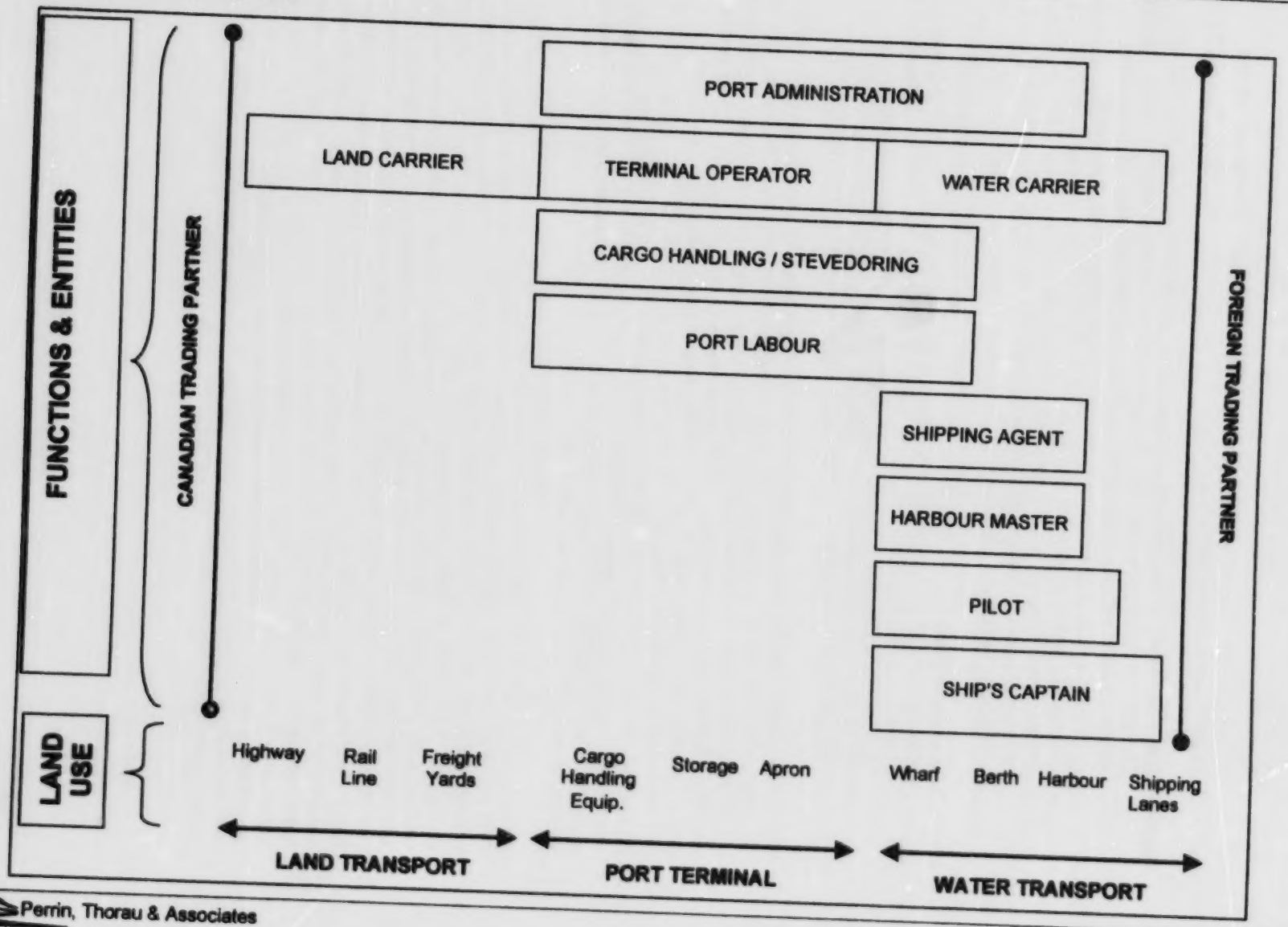
***Regional and Local Ports*** – ports that do not meet NPS or remote port standards and consequently will be transferred to provincial governments, municipal authorities, community organizations, private interests, other groups and in some cases other federal departments (for example, the Department of Fisheries and Oceans), or "deproclaimed" and demolished. These ports range in size from significant local or regional ports to small facilities with little or no general commercial traffic.

Prior to the passage of the CMA, there were 105 Transport Canada controlled ports in British Columbia. Of these, six have been converted to Canadian Port Authorities - Port of Vancouver, effective March 1, 1999; Port Fraser and the Port of Prince Rupert, effective May 1, 1999; and Port North Fraser, the Port of Nanaimo and Port Alberni, effective July 1, 1999. Several other British Columbia ports have been, or are in the process of, being transferred to other ownership and control as a regional or local port, including the ports of Victoria, Esquimalt, Port Hardy and Squamish. Of the 83 port and harbour facilities along the British Columbia coast under Transport Canada control at the end of 1999, only 20 are expected to be declared remote ports and remain under Transport Canada jurisdiction – the remainder are expected to be transferred to local control or deproclaimed by April 2002.

As indicated above, this review focuses on the major ports, six of which are now port authorities. Port authorities are governed by a board of directors appointed by the federal government in consultation with port users and are responsible for administering the federal crown property and water. They have complete use and development control over the navigable waters and real property under their jurisdiction as set out in their letters patent. Port authorities have no access to federal funds and borrowing to support capital investments must be obtained through private sector lenders on the basis of the port authority's revenue stream. Profits may also be used for reinvestment in the port and port authorities actively work to develop port infrastructure (including terminals) on the land they control. Port authorities have the power to set their own lease rate and fee structures and may differentiate fees and services based on volume, value of goods or any other reasonable basis. Fees charged by the port authority must cover the costs of operating the port, but must in accordance with the legislation be fair and reasonable. Every port authority must pay a stipend, or annual charge, to the federal government based on a formula set out in the authority's letter patent (See "Other Port Costs" below).

Chart 1 – Port Functions





**OVERVIEW OF A PORT IN OPERATION:**

Port Activity originates between the activities of *foreign* and *domestic trading partners*. As part of their business arrangements, a Canadian exporter and his foreign trading partner agree on the "terms of shipment for goods" – how the cost and responsibility for the components of transporting the goods are to be divided between the two partners (there are five components of transportation costs: land – terminal – water – terminal – land.

***Land Transport System:***

For bulk cargo shipments, the responsible partner deals directly with the transportation suppliers to negotiate a bulk transportation contract with a *land carrier* (truck or rail); a handling contract with a *terminal operator* and a vessel charter through a *ship broker*. For general cargo shipments, most exporters employ freight forwarding agents who are familiar with current local rates and services to make all the transportation and terminal arrangements on their behalf. Rather than negotiating a rate, the freight forwarding agents use standard published tariffs and schedules offered by all transportation carriers and general cargo terminals.

***Port Terminal:***

The unloading of cargo is the sole responsibility of the terminal operator. Temporary holding of cargo at waterfront storage facilities is generally necessary due to the fundamentally different patterns of operation between land and water systems. Cargo handling is complicated by multiple cargo types, shapes, owners and destinations. Many terminal operators employ a specialist cargo handling contractor, called *dock stevedoring*, under a long term contract to manage the entire cargo handling operation, The terminal operator, or his cargo handling contractor, employs port labour to operate the cargo handling machinery. Some workforce is permanently employed at a particular terminal by the operator or cargo handling contractor. However, for short-term jobs, port workers with the required skills are drawn form a common manpowor labour pool via a dispatch hall or some other centralized dispatch system established and operated under joint labour/management agreements at each port.

***Water Transport System:***

*Water carriers* schedule ship movement many months in advance. At a port, they may employ a *shipping agent* to care for the ship's operational and service needs while the ship is in port. A ship may have to anchor off shore to await inspection or a berth. The location of the anchorage is assigned by the *harbour master*, the chief nautical advisor of the port authority. The harbour master is responsible for all traffic in the port. When a berth is free the terminal operator will notify the shipping agent.

The terminal operator is responsible for moving cargo out of storage to the vessel, but for many commodities, other than free-flowing bulk commodities, the shipping agent may contract with a cargo handling company to undertake the *ship stevedoring* (opening the ship's hatches, stowing and securing the cargo and readying the ship for sailing).

A licensed *pilot* must be on board whenever a deepsea vessel moves in compulsory pilotage waters as defined by Transport Canada. Pilots, who are trained in navigation of local waters, are assigned to a vessel by a Pilotage Authority (federal crown corporations). Pilots are responsible for the "conduct" of the vessel, but the *captain* retains ultimate responsibility for its movements and safety. The Captain is responsible for determining when a vessel is ready to sail after all loading and requirements are complete. Pilot and tugs are employed by the shipping agent in advance to help the vessel maneuver from the berth. After the vessel reaches the limit of the compulsory pilotage area, the pilot is dropped off the and vessel enters the shipping lanes.

(Based on WESTAC, Background Papers on Western Ports, 1980.)

## PORT REAL PROPERTY

Much of this report is concerned with the use of "real property" located on or near tidewater for "ports purposes." For the purposes of this report, real property means land and improvements on land, where improvements includes buildings, other permanent structures and transportation infrastructure, such a roads, rail lines and piers. Throughout this report, references to property should be read as references to real property (land and improvements). Ports purposes means commercial activity associated with the movement of goods by water and other marine activities such as shipbuilding and repair.

Not all property adjacent to tidewater in a given harbour is necessarily owned by the port authority. The property in most ports is a patchwork of CMA property[8] managed by the port authority, privately held property and property owned by provincial and local governments. For example, in the three Greater Vancouver ports, about 72% of port-related property is owned by provincial and local governments or privately owned and operated. In addition, the vast majority of terminal operations and cargo handling functions are undertaken by private sector firms who either own port land, have leased land and water from the port authority, or have an operator's agreement with the port authority.

The following table details the distribution of property in the six port authorities.[9]

**Table 1 – Distribution of Port Land**

| | Hectares | | | | | Hectares | |
|---|---|---|---|---|---|---|---|
| Port of Vancouver | 380 | 722 | 155 | 1,257 | 30.2% | 612 | 48.7% |
| Port Fraser | 501 | 9 | - | 510 | 98.2% | 57 | 11.2% |
| North Fraser Port | 29 | - | 1,417 | 1,446 | 2.0% | - | 0.0% |
| Subtotal | 910 | 731 | 1,572 | 3,213 | 28.3% | 669 | 20.8% |
| Port of Prince Rupert | 1,125 | - | - | 1,125 | 100.0% | 149 | 13.2% |
| Port Alberni | 542 | 10 | 6,600 | 7,152 | 7.6% | 23 | 0.3% |
| Port of Nanaimo | 286 | - | 3,904 | 4,190 | 6.8% | 57 | 1.4% |
| Total | 2,863 | 741 | 12,076 | 15,680 | 18.3% | 898 | 5.7% |

**Source: Various port authorities and BC Assessment Authority.**

[8] CMA property is either federal Crown land managed by the port authority or directly owned by the port authority.

[9] This should not be interpreted as evidence that property tax issues related to port terminal operations are limited to Port of Vancouver because of the concentration of private land. For CMA land, it is the occupier who is liable for property tax, which is often and increasingly private port terminal operators. The port industry land includes land in all three ownership categories that is devoted to port terminal or ship building and repair operations.

Municipal governments also affect the overall operation of the port primarily by providing services, setting local property tax rates and making land use and zoning decisions regarding private land. CMA land is not subject to local land use planning..

Appendix C contains a profile of each the six port authorities in British Columbia and the major ports of Squamish and Kitimat.

## *The Economic Role of Transportation and Ports*

### TRANSPORTATION

Canada is heavily dependent on international trade. It is the seventh-largest exporter and the eighth-largest importer among trading nations and exports more than one-third of the value of goods it produces. Canada's ability to compete successfully in the global marketplace depends on its ability to:

- produce the goods and the services the world wants to buy; and
- deliver those goods and services in a timely and efficient way meeting its customers' demands for quality and service.

Accordingly, Canada's transportation system is crucial to the country's global competitiveness. The transportation system is the essential underpinning of several other sectors of the economy including manufacturing, trade, construction, mining, utilities, agriculture, and forestry that account for 45 percent of Canada's Gross Domestic Product (GDP). These sectors are dependent on the transportation system for the movement of the goods and services they produce.

In addition, transportation is a key component of the national economy in its own right. In 1998, transportation itself accounted for $32 billion or 4.5 percent of Canada's total GDP.

### CANADIAN PORTS

The ports system forms a critical part of this national transportation system, supporting the movement of people, vessels and the transfer of cargo. Transportation by water is a highly efficient and low-cost way to transport goods, particularly for long distances. In this, Canada has benefited from its natural waterways and deep water harbours. However, significant investment in docks, wharves, terminals, cargo handling systems and sometimes dredging is required to establish and maintain the Canadian ports system.

The Canadian port system handles an average of 375 million tonnes of goods on an annual basis – 75 percent of which is moved to or from foreign ports.

### BRITISH COLUMBIA PORTS

The Port of Vancouver alone handled 72 million tonnes of goods in 1999, significantly more than any other Canadian port and more than any other port on the West Coast of North America.

Other major commercial ports and commodity specific ports in British Columbia combined to handle an additional 61 million tonnes.

The Port of Vancouver is also a major container port with a steady increase each year in the volumes of containers handled. As well, it is an important port of call for the cruise ship industry and in 1999 handled *950,000* cruise ship passengers.

The following table compares the amount of traffic at the Port of Vancouver and other British Columbia ports with some North American ports.

**Table 2 – Traffic Volumes in Selected North American Ports**

| Port | Traffic Volumes | | |
|---|---|---|---|
| | Commodities | Containers | Cruise Ships |
| | Million Tonnes | Million TEUs | Passengers |
| Vancouver | 72 | 1.1 | 950,000 |
| Fraser Port | 26 | 0.3 | - |
| Port North Fraser | 18 | - | - |
| Prince Rupert | 9 | - | - |
| Nanaimo | 2 | - | - |
| Port Alberni | 1 | - | - |
| Halifax | 14 | 0.5 | 110,000 |
| Montreal | 21 | 0.9 | 18,300 |
| Sept-Iles | 21 | - | - |
| Thunder Bay | 9 | - | - |
| Windsor | 6 | - | - |
| Seattle | 15 | 1.5 | 118,000 |
| Los Angeles | N/A* | 3.5 | 998,086 |

Source: the various port authorities.
*cargo statistics for Port of Los Angeles only report total tonnage for commodities and containers combined

British Columbia ports are also important contributors to the economy of the province and to the local communities and regions where they are located. According to a 1999 report prepared for the Vancouver Port Authority[10], the waterfront industry[11] in the Greater Vancouver Regional

[10] *"Ships Dock, People Work" – Economic Impact of Waterfront Industry on the Greater Vancouver Region*, Report compiled by West Georgia Consultants Ltd. for Vancouver Port Authority, December 1999.

[11] Where "waterfront industry" is defined as

- business engaged in the transfer of goods and passengers leaving or entering the Greater Vancouver Gateway by marine transportation: e.g. marine terminals, port authorities and railways serving the ports; and
- businesses which relies on proximity to open water for the processing of goods within the Greater Vancouver regions and businesses such as boat builders and marinas who sell water based products and services.

District (GVRD) is responsible for creating 43,000 jobs directly and another 29,000 indirectly through firms in the region providing goods and services to the waterfront industry.

Also, according to the report, the direct contribution of the GVRD waterfront industry to provincial GDP is about $4 billion. The waterfront's contribution to provincial GDP is estimated to be $10 billion when indirect and induced economic activity is included. As well, it is recognized that the Port of Prince Rupert is essential to the economic livelihood of Prince Rupert and the surrounding region. Other smaller, commodity specific ports in the province play a critical role in supporting local industry.

## ARE BC'S PORTS COMPETITIVE?

Over the past ten years many studies and reports have addressed the issue of the competitiveness of Canadian ports and British Columbia ports in particular. Appendix E provides an annotated bibliography of 21 relevant reports and studies. Table 3 below lists the reports and indicates which factors of competitiveness each report identifies. Table 4 indicates who prepared each report and for whom it was prepared. As can be seen, while some of the reports were prepared by port industries, many of the reports were prepared by independent consultants or government agencies at the request of federal or provincial governments.

A review of the extensive body of research and study in the area of ports in the freight transportation system and the competitiveness of ports highlights a number of common themes:

- consistent with the above discussion, international trade is critical to the Canadian economy, the freight transportation system in British Columbia plays a significant role in ensuring Canada's competitiveness in the world market, and BC ports are a critical part of this system;
- BC ports costs[12] paid by shippers are higher than the port costs faced by shippers using US west coast ports for at least some commodities, particularly grain. There is evidence that in certain other markets such as containers, BC ports costs faced by shippers are competitive;
- whether or not BC ports costs are higher or lower than ports costs associated with other ports, at the present time, ports costs faced by shippers represent such a small proportion of overall transportation costs that ports costs are not the deciding factor in deciding which port to use and for the commodities that travel through BC ports, overall transportation costs are lower than for alternative routes[13];
- a weak Canadian dollar has contributed to the competitiveness of Canada's transportation system; and
- customers and shippers have increasing expectations and demands respecting service and reliability, which are significant factors in the decision about what port to use and, in some

[12] Ports costs are the costs associated with cargo handling and with the movement of ships through the port, such as pilotage and berthing fees but does not include transportation costs associated with land or water transportation.

[13] That may change with the proposed Cherry Point port development in Washington State, which would have access to the same land transportation routes as the Lower Mainland ports in British Columbia, making it an attractive alternative for current BC port traffic if ports costs are lower.

cases, shippers will be willing to pay a premium in terms of overall transportation costs in order to ensure high quality, reliable movement of goods.

The reports and studies on the competitiveness of British Columbia ports also identify a number of challenges facing ports and their future competitiveness. Taken together, there is a general overall sense from the reports and studies reviewed, and confirmed by members of the Review Group, that though British Columbia ports are at present competitive, there are a number of challenges to be faced and issues to be addressed if ports are to maintain their competitive position. Following is a description and discussion of the identified factors.

## *Strategic Importance of Ports*

Several reports suggested that there is a need to reconsider the strategic public policy direction with respect to the transportation system and ports and the roles and responsibilities of the different levels of government. These reports found that there is a need for leadership in terms of defining a national policy direction for transportation and ports within the transportation system. These reports recommended a "sea change" in terms of provincial and federal vision and policy toward the ports system as an integral part of the transportation system and the national economy. They recommended coordinated effort between provincial and federal governments and a review of the regulatory framework for transportation in Canada and, specifically, fiscal and taxation policy with respect to ports.

It is noted that national or provincial strategic visions can be and often are in conflict or competition with local visions and interests, as represented by local governments.

## *The Competitive Threat of US Ports*

United States public policy with respect to ports is significantly different than Canadian public policy. Principally, because of the strategic importance of ports to United States national security interests, preferential fiscal and taxation treatment is given to US ports to ensure their continued operating efficiency and effectiveness.

Advantageous fiscal and taxation policies available to United States West Coast ports include:

- US ports have the ability to levy property taxes on residents of the region for port development purposes;
- the ability of ports to levy taxes on the assessed value of taxable property within their districts for general port purposes and, subject to statutory limitations, the ability to levy taxes for industrial development purposes;
- lower property taxation rates[14];
- the ability to issue tax exempt bonds to finance new port infrastructure and capital development projects;

[14] Property taxation laws vary from state to state, but overall property tax paid by ports' terminals and facilities is significantly lower.

- longer financing periods (30 years in the USA as compared to 10 years in Canada);
- government infrastructure grants such as grants provided under the *US Transportation Efficiency Act for the 21st Century,* (TEA 21) – over $30 billion is expected to be spent in the Northwest States in infrastructure and transportation projects under this grant program alone; and
- defense spending is used to maintain and upgrade port infrastructure in many ports because of the strategic importance of ports for defense purposes.

The combined effect of these policies is to reduce the cost of capital for United States west coast ports as compared to British Columbia west coast ports, encouraging investment that improves capacity, service and reliability.

## *Erosion of the Ports Land Base and Urban Encroachment*

Loss of tidewater sites for port use was identified in several reports as an important competitiveness factor with respect to British Columbia ports. There is a limited tidewater site land base appropriate for ports industrial use and there is significant pressure to convert this limited land base to other uses. Once converted to another use it is difficult if not impossible to reclaim the property for industrial port use. Erosion of the land base affects the ports' ability to service growing volumes of goods and to maintain reliability.

This raises the question of, if there is a need for more land for port industry, why do the port and terminal owners not invest in tidewater property that becomes available and keep it from being converted to non-port uses? Port authorities do purchase appropriate private land when possible, but they have limited resources. Port stakeholders have indicated that private port industry enterprises will only invest in such opportunities if they believe the investment will yield adequate returns. At present, the investment climate for port industries is such that investors seeking to convert land to non-port uses may be able to bid more for property based on their expected returns.

Urban encroachment was also identified in reports as a challenge for British Columbia ports, distinct from loss of the land base. The so-called "gentrification" of land adjacent to industrial ports land generates increasing objections from surrounding neighbours to the sounds, sights and activities of an industrial port. Local government's response to these objections may place restrictions on operations within the port, reducing capacity, efficiency and reliability.[15]

Gentrification and urban encroachment of ports property is not an issue only being faced by ports in British Columbia. Similar issues are being addressed by the Ports of Seattle and several ports in Australia, including Sydney and Adelaide.

[15] It is noted that this is also a challenge for local governments seeking to balance competing interests.

## Table 3 – Summary of Reports Identifying Competitiveness Factors

| Report | Factors Affecting Competitiveness of BC Ports | | | | | | |
|---|---|---|---|---|---|---|---|
| | Competitive Threat - US Ports | Property Tax Burden | Erosion of Ports Land Base | Urban Encroachment | Road & Rail Access | Port & Other Costs | Labour/ Management |
| BC Freight Transportation System Study | √ | | √ | | √ | √ | |
| Canada/US Port Competitiveness Study | √ | | | | √ | √ | |
| Competitiveness of BC Ports | √ | √ | √ | √ | √ | √ | |
| Competitiveness of Canadian Ports | √ | √ | | | √ | √ | |
| Competitiveness & the Greater Vancouver Gateway | √ | | √ | | √ | | |
| Directions for Growth – Report on Competitive Position of Greater Vancouver Sea Ports | √ | √ | | | | √ | √ |
| Factors Affecting the Competitiveness of Canada's West Coast Ports | √ | √ | √ | √ | √ | √ | √ |
| Grain Handling and Transportation Review | √ | | | | √ | | √ |
| Infrastructure Challenges and Solutions | √ | √ | | | √ | | |
| International Competitiveness of Western Canadian Transportation | √ | | | | √ | √ | √ |
| Moving Forward – A Guide on the Importance of Transportation in Canada | √ | | √ | √ | √ | √ | |
| Ports Task Force Report | √ | √ | √ | √ | √ | √ | √ |
| Ports Costs and Productivity Factors | √ | | | √ | | √ | √ |
| Ports in Canada: Future Competitiveness | √ | √ | | | √ | √ | √ |
| Presentations for Gateway '97 Forum | √ | √ | | | √ | √ | |
| Ships Dock, People Work | √ | √ | | | | | |
| Study of Public Charges and Financial Assistance at Ports | √ | √ | | | | √ | √ |
| The Working Waterfront | √ | √ | √ | √ | √ | | |

**Table 4 – Authors and Audiences of Competitiveness Reports**

| Report | Prepared By | Prepared For |
|---|---|---|
| British Columbia Freight Transportation System Study | KPMG | Transport Canada |
| Canada/US Port Competitiveness Study | Sparks Companies Inc. | Transport Canada |
| Capital Investment by US West Coast Ports | Dorsey and Whitney | Industry |
| Competitiveness of BC Ports – Report of BC Ports Competitiveness Committee | Industry | Industry |
| Competitiveness of Canadian Ports – presentation at ACPA | Port Authority | Port Authority |
| Competitiveness and The Greater Vancouver Gateway- An Institutional Problem? | Jonathon Seymour and Associates | Port Authority |
| Directions for Growth – Report and Recommendations on the Competitive Position of the Greater Vancouver Sea Ports | Industry | Industry |
| Factors Affecting the Competitiveness of Canada's West Coast Ports | Ekstrom Port Consultants | Western Provinces |
| Grain Handling and Transportation Review | Federal Government | Federal Government |
| Infrastructure Challenges and Solutions – Presentation to BC Business Summit 98 | Industry | Industry |
| International Competitiveness of Western Canadian Transportation | Transport Institute, University of Manitoba | Western Economic Diversification Canada |
| Moving Forward – A Guide on the Importance of Transportation in Canada | Van Horne Institute | Western Transportation Advisory Council |
| Port Task Force Report | Transport Canada | Government & Industry & Port Authority |
| Port Costs and Productivity Factors | McCague Cargomaster Services Inc. | BC Government |
| Ports in Canada: Future Competitiveness | Federal Government | Federal Government |
| Port of Saint John Property Taxation Task Force | Independent | Port Authority |
| Presentations and Recommendations for the Gateway 97 Forum | Industry | Industry |
| Review of Pilotage Issues | Canadian Transportation Agency | Federal Government |
| Ships Dock, People Work | IWest Georgia Consultants Ltd. | Port Authority |
| Study of Public Charges and Financial Assistance at Ports | Independent – Peat Marwick | Transport Canada |
| The Working Waterfront | District of North Vancouver | District of North Vancouver |

## Property Tax Burden

Several reports[16] cited the property tax burden on British Columbia ports as a major issue to be addressed in terms of the overall competitiveness of British Columbia ports within the context of broad reviews of competitiveness issues and government imposed financial costs, including income, consumption and other taxes and fees-for-service.

There are three issues related to property taxation:

- property taxes are significantly higher on average in British Columbia than in the US, contributing to competitive pressures related to ports charges paid by shippers;
- the property tax burden in some municipalities is a barrier to new investment, affecting service quality and reliability in the longer run; and
- differences in property taxes paid in different municipalities creates competitive concerns within British Columbia.

## Road and Rail Access/Congestion

The vast majority of the reports and studies reviewed pointed out the issue of road and rail access as a very significant factor for the long-term competitiveness of British Columbia's port system. The reports recognized the importance of the freight transportation system in BC to the price competitiveness of Canadian exports in the world market. Given the increasing importance of the inter-modal transportation system to the movement of freight, the issues of road and rail access and congestion to the lower mainland ports was seen to be a critical issue needing attention in the immediate future. This is a key element of overall service, efficiency and reliability.

## Other Port Costs

Several reports mentioned costs to port operators and users as an issue effecting the competitiveness of British Columbia ports. There was concern that the move to locally run ports with a cost recovery objective would lead to higher costs. There was also a concern that the cost recovery objective for marine service fees including navigational service fees, costs of pilotage, and coast guard services would when added together have an impact. Together these changes represent a shift from funding services through general revenues to user pay fees, with an impact on competitiveness. Some reports also pointed out the increasing costs of environmental regulation compliance as a concern.

Port authorities are concerned about the level of payments required to be made to the federal government on an annual basis. Under the *CMA*, all port authorities are required to pay a stipend to the federal government based on a gross revenue calculation[17]. The Vancouver Port

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[16] See Table 3 for the studies that specifically identified property tax burden as a significant factor and Appendix D for a reference to and summary of each of the studies.

[17] The stipend payment is based on the following formula: 2% on first $10 million in revenue; 4% on next $10 million in revenue; 6% on next $40 million in revenue; 4% on next $10 million in revenue; and 2% on the excess, for a total of $3.5 million in 2000.

Authority has traditionally paid a dividend to the federal government ($6 million in 1999). The issue is even more significant for the other new British Columbia port authorities that must now pay a stipend out of revenues for the first time, affecting their ability to use revenues to reinvest in port improvements and operations.

## *Labour/Management Relations*

Several reports discussed the need for improved management/labour relations as an important competitiveness factor. They found that labour disruptions had an impact on customers' perceptions of the reliability of British Columbia ports – and pointed out that "perceptions" of labour unrest and lack of certainty and reliability of service were as critical as the actual factors. They recommended the need for labour/management to work together in a greater spirit of cooperation and partnership to address these issues.

Port activities are under federal jurisdiction. Labour Canada is reportedly reviewing port labour relations issues.

## *Other Related Issues*

There are other issues related to the British Columbia that ports that are not directly related to competitiveness issues and that have not been raised in the studies reviewed but in other forums. For example:

- questions have been raised about the structure of port authorities in British Columbia and the need for three port authorities in the Lower Mainland;
- port authorities have responsibility for the quality of water in the harbours, which is affected by municipal and other sources of water and wastewater discharges. Some municipalities have indicated that enhanced port authority standards in this area are an additional cost pressure imposed by the port authorities that justifies high taxes on port lands, including port terminal operators and should therefore be included in this discussion. However, this review has concluded that this is an environmental issue rather than a port issue and it just happens that the agency with this particular environmental mandate is the port authority. That is, any wastewater treatment costs result from environmental standards rather than activity on port lands, so there is no collecting revenue to cover those costs from port property or port activity to any greater extent than from others that contribute to the flow of water requiring treatment; and
- port policing in the Vancouver Port Authority was traditionally undertaken by dedicated police force funded by the Port. Policing responsibility was transferred to local government several years ago. That has been an ongoing source of tension between the Port of Vancouver and local governments that would likely be raised during any discussions with local governments about port competitiveness issues. Beyond acknowledging the issue, it would be beyond the scope of this review to consider it in more detail.

This review is limited by the Terms of Reference to certain issues directly related to ports competitiveness and although these are important issues, they are beyond the scope of this review.

# FACTORS OF COMPETITIVENESS

Synthesizing the research and studies in this area and the analysis of the issues, for the purpose of this report three elements of the competitiveness of British Columbia ports have been identified:

- Price
- Service
- Capacity

## *Price Competitiveness*

Several of the studies referenced in the previous section show that Canadian ports and ports operators face some significantly higher costs than their US competitors, including charges levied by all three levels of government. Nevertheless, British Columbia ports seem to be competitive in terms of price (the cost to shippers of port services) for some types of goods and services and uncompetitive for others. In general terms, BC ports have higher infrastructure costs and lower labour costs than U.S. ports.

This does not seem to have a material impact on the volumes shipped through the ports at this point in time because ports costs form such a small part of the overall cost of transportation. At present, British Columbia is competitive internationally in terms of its overall transportation costs for the goods that travel through British Columbia ports, principally because of geography, the low value of the Canadian dollar and labour productivity.

In the longer term, it is recognized that port cost competitiveness could become more significant if the Canadian dollar strengthens, thus increasing Canadian transportation and port costs. Changes in the transportation system could also make shipment through US ports more cost effective from the perspective of overall transportation costs, increasing the relative importance of ports costs. There are also pressures on infrastructure and labour costs that may make price competitiveness a more significant issue in the future. Finally, planned port investment at Cherry Point in Washington State, with access to the same transportation routes as used by shippers through the Lower Mainland ports would increase the importance of port costs as a competitiveness issue.

## *Service and Capacity Competitiveness*

Price, however, is clearly not the only factor taken into account by shippers when deciding how to ship their goods. Equally important is minimizing the risk associated with the goods being delivered on time and in good condition. That is governed by the service and capacity factors.

According to the studies, BC ports seem to be generally competitive in terms of service and capacity, although issues such as road and rail congestion and loss of tidewater sites available for ports use threaten that competitiveness. The ability of British Columbia ports to remain competitive on service and capacity is also threatened by the significant capital investment in US West Coast ports infrastructure and transportation systems. That will have the effect of

increasing the service levels and capacity of those ports and reducing the overall transportation costs of shippers associated with using the ports, putting significant additional competitive pressure on British Columbia's ports.

There is also a link between port capacity and transportation economies of scale. For example, at present Dow Chemical cars and Lynnterm pulp cars travel on the same priority train. If either volume drops significantly, the priority train and its efficiencies could be lost.

That leads one to the conclusion that:

> **Significant and continuing capital investment in British Columbia's ports and the transportation infrastructure serving ports is required if maintaining efficient port facilities in western Canada is important for Canada's economic well-being, given the reliance of Canada in general and western Canada in particular on trade, especially with the Pacific Rim.**

To maintain service and capacity competitiveness, investment is necessary to:

- replace obsolete equipment,
- increase efficiency of both port facilities such as terminals and truck and rail transportation access to the ports; and
- provide better customer service.

It is understood that several port owners and operators have plans to make significant capital investment in the next few years. Table 5 shows investment made in the Port of Vancouver over the past five years and the prospective investment intentions of major port owners and operators over the next five years.

The table shows that investment has been somewhat uneven and is expected to continue to be. A considerable proportion of the investment has been made directly by the Port of Vancouver.

Significant recent investments include the $110 million upgrade of the Vancouver Wharves Terminal owned by the BC Rail Group, which was completed in early 2000, as well as investment in cruise ship facilities and in the container handling facility at Roberts Bank.

Port stakeholders have indicated that the investment intentions indicated above may not all proceed unless the competitive environment can be improved. They maintain that, at present, cost pressures facing the Port and its operators together with uncertainty about the availability of suitable tidewater sites and the ability to operate port industries on those sites in an efficient way would make much of this intended investment uneconomic.

In addition, port stakeholders suggest that there are other significant capital projects that have not even been considered because of these factors. The consequence, according to the port stakeholders, will be the slow and irreversible decline of British Columbia's ports in favour of US ports.

**Table 5 – Port of Vancouver Investment and Investment Intentions**

| Year | Total Port Investment ($ Million) |
|---|---|
| 1995 | 89.5 |
| 1996 | 175.4 |
| 1997 | 133.0 |
| 1998 | 62.2 |
| 1999 | 66.8 |
| 2000 | 205.4 |
| 2001 | 188.7 |
| 2002 | 130.2 |
| 2003 | 77.6 |
| 2004 | 324.6 |

Source: Port of Vancouver, 2000

## *Impact of Insufficient Investment*

What would happen if the investment climate for British Columbia's ports does not encourage the investment needed to maintain service, capacity and price competitiveness?

As noted above, a significant amount of the traffic through British Columbia ports is routed there because, in terms of overall shipping costs and speed of delivery considerations, the British Columbia ports are favoured. That effect is strongest for the ports that are closely linked to a specific producer, such as Kitimat. For other ports, the sensitivity of port traffic to price, service and capacity will vary across the type of cargo and the shipper. Some types of cargo will use British Columbia ports as long as it is possible, almost regardless of price, service and capacity. But others will be much more sensitive. There is currently no evidence available to indicate what proportion of current port traffic is relatively sensitive and what proportion is relatively insensitive to competitiveness factors. However, anecdotal evidence related to recent transferal of potash shipments from Vancouver to Portland and recent increases in container traffic in Lower Mainland ports, partly at the expense of US West Coast ports, suggests that the volumes of cargo that are sensitive to competitiveness factors may be significant.

To the extent that there is any significant amount of traffic that is sensitive, the result of not making investments would likely be that shippers of cargoes sensitive to the factors of port competitiveness would begin to use alternative ports. Although that shift might be over a period of years, the result would be to require that the substantial fixed costs of the commercial ports (including property taxes and debt service for existing infrastructure) would need to be borne by reduced cargo volumes, further driving up port charges and driving down profits. The result would be a downward spiral with losses of cargo leading to further reductions in the incentive to invest leading to further reductions in port competitiveness leading to loss of further cargo and so on. That in turn would result in ever increasing burdens being placed on those buying and selling the goods that must continue to be shipped through the British Columbia ports,

increasing the cost of imports to consumers and reducing the competitive position of exporters, both of which would reduce GDP.

It is beyond the scope of this review to predict the level of investment needed to prevent such a spiral from starting or what the impact on the port would be over the next ten years of not making any changes. It may be that most of the existing cargo is insensitive to competitiveness factors and that any losses would be marginal in terms of volume and value, but the opposite may also be true. It is likely, given the lead times involved with major investments in port infrastructure and the sensitivity of such investments to the potential return on investment, that once any significant loss in cargo volume becomes apparent it will be too late or much more costly to reverse it in the short run than it would be to provide a level playing field at the outset.

In principle, if there are significant competitive disadvantages in British Columbia that act as barriers to investment, one would expect that once the disadvantages are removed, the market should allocate resources efficiently to ensure that adequate investment is made.

## *Issues Affecting Ports Investment*

Building upon the conclusion that the long term competitiveness of British Columbia's ports depends upon an investment climate that encourages and enables investment, this section relates the competitiveness issues identified above directly to the investment question.

In general terms, investments are made when the expected return from an investment outweighs the return that could be realized through an alternative investment. Without exploring in detail what sort of returns might be expected from alternative investments that might be made by the entities operating in British Columbia's ports, it is sufficient for the purposes of this report to note that there is some hurdle expected rate of return that an investment must earn.

Generally, those investments with the highest expected returns in excess of the hurdle rate will be made first. The implication is that, to encourage investment, there must be a level playing field vis-avis competitors in other jurisdictions (such as the US) and with competitors elsewhere in British Columbia (i.e. terminals within the same port and in different British Columbia ports that compete with each other).

The expected return on an investment depends on at least three things:

- the cost of the investment, including acquisition of land, construction of buildings, purchase or construction of equipment, taxes paid and debt service costs;
- the profit earned from the investment, which in turn depends on revenues (price times quantity) and costs, including labour and other direct costs of the service being provided, management overhead, amortized capital costs (the cost of the investment as above, spread over the useful life of the investment), taxes and other government charges; and
- risk associated with the projected cost of the investment and the projected profit from the investment, including risks associated with obtaining necessary permits and approvals to undertake the capital project and with changes in the many parameters used in the analysis such as market share, price, taxes, interest rates and the ability to continue operating.

In short, an investment will not usually be made unless there is reasonable certainty that the project will earn a reasonable profit.

Many of the considerations related to an investment decision are beyond government control but many are directly controlled or affected by actions of one or more of the three levels of government. The following examines the competitiveness issues identified above from the various studies and categorizes them according to the three parts of the investment decision described above and the role if any, of the provincial government in affecting each one. The result will be a list of issues the provincial government might consider taking action to resolve.

### Cost of Investment Issues

For the purpose of this discussion, a distinction is made between investment in port facilities, such as terminals, and investment in supporting transportation infrastructure, such as road and rail access.

In terms of port facilities, the cost of the investment is primarily affected by governments through:

- the taxes charged directly in relation to the capital project,
- the availability of government grants or subsidies to reduce the cost of the investment and,
- where a port authority is the landlord, government costs that affect the rent or lease costs charged by the port authority.

Provincial government taxes that affect the cost of investment include the provincial sales tax on machinery and equipment and the corporation capital tax, both of which are explored in the Options section, together with investment tax credits against corporation income tax and direct grants or subsidies.

In terms of port infrastructure, this can be divided into infrastructure provided by the port authority, such as the recently developed truck scheduling and monitoring system installed by the Port of Vancouver, and transportation infrastructure outside of the immediate port area.

The ability of a port authority to make investments in infrastructure depends on its ability to borrow (controlled by the federal government) and by the amount of cash generated by the port authority, which depends on the rents and other revenues it collects, less the costs it pays, including payments-in-lieu of property tax[18] and payment of the stipend to the federal government.

Investment in transportation infrastructure, although of vital importance to port competitiveness, is a complex issue that is being addressed in numerous other forums. The following describes some of that work.

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[18] As federal Crown corporations, port authorities are not directly taxable but may make payments in lieu of property taxes in accordance with the applicable federal legislation. At present, of the six BC port authorities, only the Port of Vancouver currently makes payments in lieu of taxes and local governments are not often satisfies with the level of these payments.

As a result of the Estey grain handling and transportation review, a number of initiatives to improve the efficiency and competitiveness of the movement of grain by rail are currently being implemented. In July 2000, the federal government announced the appointment of an independent panel to conduct a comprehensive review of the *Canada Transportation Act*. The Act, which came into force in 1986, requires this comprehensive review of the operations of the Act and any other federal Act for which the federal Minister of Transport is responsible and that concerns the economic regulation of a mode of transportation and transportation activities under the authority of the federal government. According to it terms of reference, the *Canada Transportation Act* review panel must:

- specifically consider ways to increase competition in the railway sector, including enhanced running rights, proposals for regional railways, and other access concepts which need to be assessed in the broader context of increasing North American integration and ensuring cost-effective service for shippers over the long-term; and
- consider other issues such as
  - the effectiveness of the legislative and regulatory environment to sustain capital expenditures required to enhance productivity and promote innovation;
  - support for Canadian transportation stakeholders in meeting global logistics requirements and adapting to the new "e-business" environment;
  - public policy issues that may emerge from newly arising industry structures;
  - government powers to support sustainable development objectives; and the advisability of measures to preserve urban rail corridors for future mass-transit use.[19]

An interim report of the panel on rail access and competition was expected by December 31, 2000; a final report of the review panel must be submitted by July 1, 2001. The British Columbia government, led by the Ministry of Transportation and Highways, is preparing a co-ordinated provincial response to the *Canada Transportation Act* review. It is understood that the provincial response is focusing on policy level issues and the needs of the province in terms of a broad transportation context.

At the provincial level, both Translink and the Greater Vancouver Regional District (GVRD), are involved in transportation planning and delivery in the Greater Vancouver area. Translink is responsible for planning and financing a regional transportation system that is designed to move people and goods efficiently and which is in support of the regional growth strategy of the GVRD. It is understood that the GVRD's "Livable Regional Strategic Plan", originally passed in 1996 and which provides the framework for making regional land use and transportation decisions is currently being updated.

Another group involved in transportation issues in the Greater Vancouver region is the Greater Vancouver Gateway Council (GVGC). Formed in 1994, the Council was created "to build and act upon a vision for Greater Vancouver as a world transport gateway"[20]. In 1998, the GVGC developed a comprehensive vision for the future that recommends action at all levels of government to address three priority areas: fair and competitive framework with competing

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[19] Source: Terms of Reference for and press release announcing "Review of *Canada Transportation Act*.

[20] The Council is comprised of senior executives form industry and government who subscribe to a common vision that "Greater Vancouver become the Gateway of choice for North America".

gateways in the United States; investment in infrastructure and facilities and better use of existing facilities; and service expansion and improvements. The GVGC has made representations to the provincial and federal government and is involved in current processes examining the issues of transportation access in the Greater Vancouver region, including the review of the *Canada Transportation Act* and the update of the GVRD strategic plan.

Because of the level of effort already placed on transportation issues, this report will not consider those issues further.

#### RETURN ON INVESTMENT ISSUES

The return on investment from a particular capital project largely depends on the operating and other ongoing costs associated with the project. Many of the factors associated with the return on investment are either set by global markets or are under the control of the specific company. However, especially in the ports, there are many charges levied or controlled by the three levels of government.

Several of the costs imposed by the federal government or federal agencies are currently being addressed in other forums and will not be discussed further in this report:

- The issue of the high cost of pilotage was an issue addressed in the Canadian Transportation Agency Review of Pilotage Issues (1999). The review recommended that all pilotage authorities examine, in consultation with affected parties, financial, operational and planning issues and report to the federal government on specific steps taken to improve efficiencies and reduce costs. The recommendations in the pilotage review have been substantially adopted by the federal government and it is understood that this consultation and reporting process is currently underway.
- With respect to other marine service fees, the federal Treasury Board Secretariat is undertaking a comprehensive review of marine service fees, including Coast Guard fees for vessels transporting bulk commodities. Transport Canada is monitoring this review.
- The Association of Canadian Port Authorities (ACPA) has formed a "Competition Review Task Force" to examine and make representations to the federal government on a number of issues including cost recovery and port charges and fees[21].

The other major cost factor identified in the competitiveness studies is property taxation. See Appendix D for a more complete discussion of property assessment and taxation as well as the detailed data underlying the following analysis.

## *Property Taxation*

As discussed above property taxation is only one of several issues being specifically addressed in this report, but it is being given extra consideration in this section of the report for two reasons. One is that the review of the literature has identified property taxation as one of the

[21] The ACPA's Competition Review Task Force is divided into a number of working groups. In addition to costs these working groups are looking at: real property issues; taxation and payments in lieu of taxation; governance and board composition, calculation of stipend, debt issues, and access to government programs.

most significant issues – certainly the most significant issue within provincial jurisdiction. The other reason is that property taxation is relatively complex, so considerable effort has been made to explain and analyze the issue in some depth.

Property taxes are imposed by local governments and the provincial government (the school property tax). Property taxes are established by applying a set of tax rates (usually expressed in terms of dollars of tax per $1,000 of assessed value) imposed by the taxing authorities (local and provincial governments) to an assessed value established by the BC Assessment Authority in accordance with the British Columbia *Assessment Act*, the regulations and policies.

The underlying principle of property assessment is fair market value. For the assessment of land (as opposed to improvements), the principle is fair market value of the land in its highest and best use consistent with any land use restrictions (such as zoning) on the property, regardless of what the property is currently used for. Improvements are assessed by estimating their market value in their current use. The public policy objectives behind market value assessment include fairness and encouraging over time the best use of a scarce resource (land).

All property in the province is assigned to one of nine property classes for assessment purposes. Each municipality sets tax rates separately for each class of property and there are currently few limits on the rates that may be set for various classes of property.[22]

By statute, industrial port land that is used for building, refitting or repairing ships or loading cargo onto sea going ships or barges, and associated cargo storage and loading facilities, including grain elevators (collectively referred to as port terminals or terminals) is assigned to Class 4 – Major Industry. Port stakeholders note that other transportation infrastructure that is in direct competition with port terminals, such as intermodal transfer yards where containers are stuffed or destuffed, are not included in Class 4.

There is also land controlled by port authorities and private land adjacent to harbour tidewater that is not in Class 4 including vacant land and land used for other purposes such as marinas, various marine services, other industrial activities and non-industrial, non-port uses.

As it applies to property taxes, this report is primarily concerned with port terminal operations and shipbuilding/repair, which are referred to as "port industries."

There are two points that should be noted about ports property that is within the Major Industry property class::

- In most municipalities that have ports property in the Major Industry class, there are few taxpayers in that class.
- The *Assessment Act* imposes a specific methodology for valuing improvements on Class 4 properties for property tax assessment purposes using replacement cost less depreciation as the basis. This was done because the assessment of major industrial improvements, such as various types of mills, resulted in considerable volatility in assessments and a high

[22] There are limits on rates in the Utilities Class (Class 2) imposed in 1996 to address issues related to the taxation of railway linear rights of way. There is a general power in the *Local Government Act* to impose restrictions on local government tax rates by regulation.

proportion of complex appeals, creating uncertainty for industry and local government alike and increasing administrative costs significantly.

Ports stakeholders have raised four separate concerns about the impact of property taxation on the investment climate:

- in all ports municipalities in British Columbia, tax rates are significantly higher than property tax rates applied in US ports and impose a high marginal cost on new investment, often equal to the amortized cost of the investment;
- there are significant variations in local government tax rates for Class 4 and in the amount of tax paid by specific taxpayers, creating an uneven playing field within British Columbia;
- industrial port land is restricted (or should be restricted) to ports industrial use and therefore assessed values for the land at fair market value in its highest and best use (e.g. residential waterfront or high density commercial use) creates a disincentive to invest in industrial use of the property;[23] and
- use of the cost basis of valuation for improvements means new improvements have a higher assessed value than existing improvements, regardless of the contribution the improvement makes to generating revenue. This creates a disincentive to investment and creates competitiveness issues among BC facilities.[24] Port stakeholders feel that this disincentive imposes a cost that exceeds any benefits from a relatively stable assessment base for improvements and they point out that port terminals share few characteristics with other types of industry included in Class 4, such as forest product or mineral processing mills.[25]

The property assessment issues identified are clearly within the sole control of the provincial government. Options for addressing these issues are discussed below. However, changes to assessment methodology really only affect the distribution of property taxes among taxpayers. Ports stakeholders have given highest priority to issues related to tax rates. The following provides some background to help understand the tax rate issue more clearly.

Table 6 below summarizes assessed values for Class 4 property for the British Columbia municipalities with a significant port industry presence.

The table shows that in the Lower Mainland municipalities with a significant port industry presence, these industries made up a major proportion of port property. It should be noted that the Taxable Assessed Value differs form Total Assessed Value primarily due to properties that are exempt from taxation because they are occupied by federal or provincial Crown agencies,

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[23] In fact, all port property used for port terminal operations or shipbuilding is on land zoned for industrial uses and is assessed based on that land use restriction, not based on other uses of the property such as commercial or residential.

[24] It should be noted that this method for the valuation of Major Industry improvements was introduced to bring stability to the tax system because other methods, such as the income method resulted in considerable year over year variations in assessed values, creating uncertainty for both taxpayers and local governments. Appendix D provides more discussion of the basis of the property tax system.

[25] Other types of property classified in Class 4 tend to be more cyclical than the port terminal business and to represent a very high proportion of assessed value for a local government whereas port terminals are usually a small proportion of assessed value in the municipality.

including port authorities. Some of these agencies make payments in lieu of taxes but the payment may differ from the amount that would be paid if the property were taxable.[26]

**Table 6 – Port Industry Assessed Values**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| City of North Vancouver | 121.2 | 121.2 | 100.0% | 4,730.5 | 129.7 | 130.0 | 99.8% |
| Delta | 46.8 | 140.7 | 33.2% | 1,156.1 | 141.4 | 215.9 | 65.5% |
| District of North Vancouver | 52.9 | 110.6 | 47.9% | 4,836.3 | 184.4 | 251.6 | 73.3% |
| Port Moody | 21.8 | 74.0 | 29.5% | 910.3 | 21.8 | 78.1 | 28.0% |
| Surrey | - | 34.7 | 0.0% | - | 36.0 | 75.7 | 47.6% |
| Vancouver | 106.3 | 153.5 | 69.3% | 3,248.5 | 202.6 | 255.3 | 79.4% |
| Subtotal | 353.6 | 634.7 | 55.7% | 14,881.7 | 716.0 | 1,006.6 | 71.1% |
| Kitimat | 0.6 | 110.6 | 0.5% | 0.5 | 0.6 | 215.1 | 0.3% |
| Nanaimo | 0.6 | 120.3 | 0.5% | 0.5 | 11.9 | 152.8 | 7.8% |
| Port Alberni | 5.6 | 106.9 | 5.2% | 376.1 | 5.6 | 122.7 | 4.6% |
| Prince Rupert | 85.3 | 152.6 | 55.9% | 2,890.9 | 104.2 | 194.1 | 53.7% |
| Squamish | 12.8 | 54.8 | 23.4% | 640.6 | 12.8 | 65.9 | 19.4% |
| Total | 458.5 | 1,179.9 | 38.9% | 18,790.3 | 862.6 | 1,757.2 | 49.1% |

Source: Calculated using assessment information provided by the BC Assessment Authority and the Ministry of Municipal Affairs.

Total municipal property taxes paid by the Major Industry class of taxpayers in the Lower Mainland municipalities with a port industry presence in the year 2000 was about $20.9 million,[27] with about $14.9 million or 71 percent from port industries. In addition, Class 4 taxpayers paid about $7.9 million in Provincial Non-residential School Property Tax, including about $4.4 million from port industries. Total 2000 property taxes paid by port industries in the Lower Mainland was about $19.3 million, not including payments in lieu of taxes.

There has been a 117% increase in Major Industry property tax paid in Lower Mainland municipalities with a port industry presence since 1988. According to the Port of Vancouver, property tax paid by terminal operators is about 9% of their operating costs on average, ranging from 6% to over 12%.

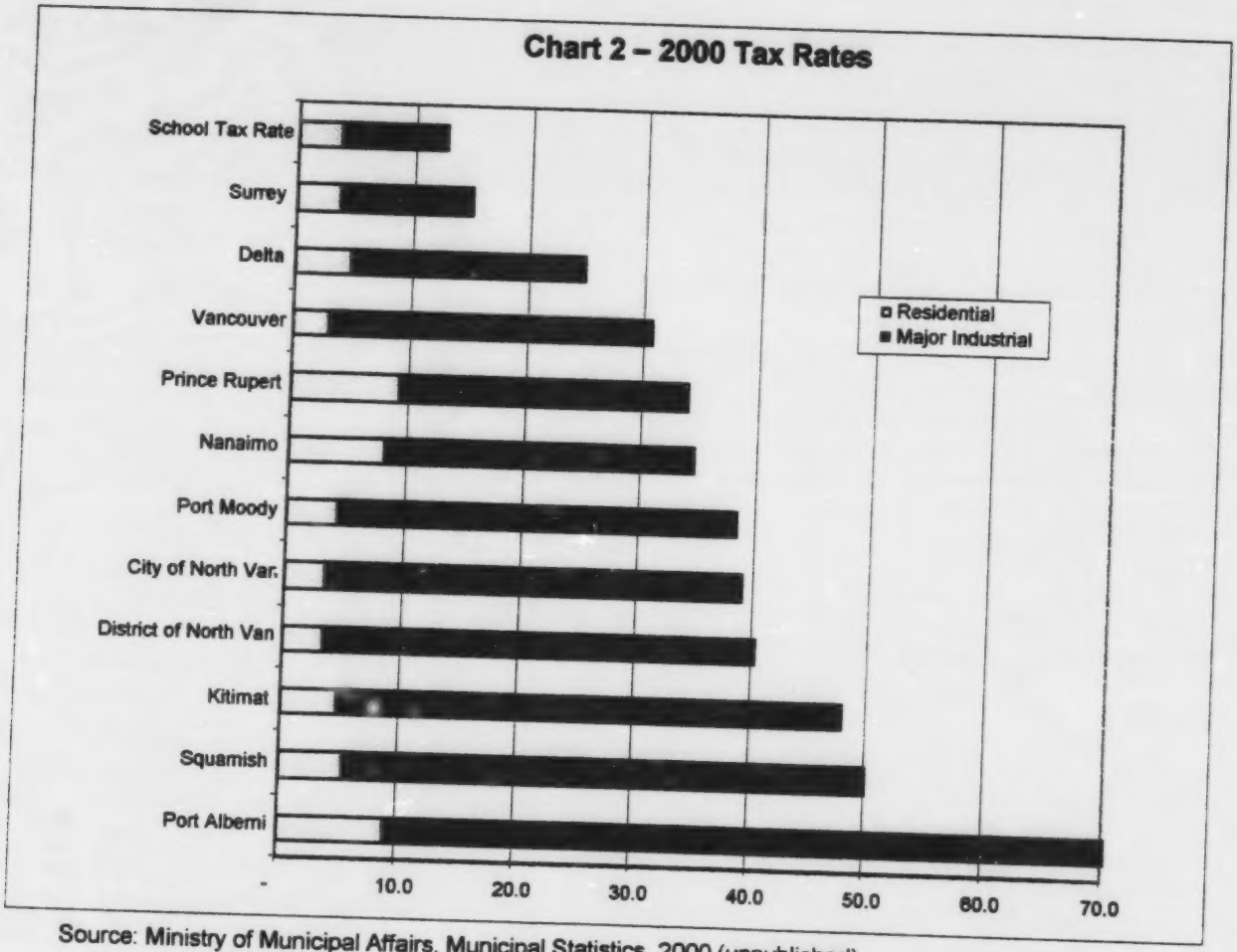
Chart 2 shows year 2000 tax rates for Residential and Major Industry property in various British Columbia municipalities with a port industry presence[28]. It indicates that in several jurisdictions

[26] Vancouver Wharves, a provincial property is discussed further below. Vancouver Port Authority makes payments in lieu of taxes but local governments have complained that these payments are often low compared to the amount of taxes. Fraser Port and Port North Fraser currently do not make payments in lieu of taxes.

[27] See Appendix D, Table 6.

[28] See Appendix D for more detailed data.

the municipal Major Industry property tax rate is in excess of 3% ($30 per $1,000 of assessed value), which combined with the provincial non-residential school property tax rate of 1.25% generates a total property tax rate of between 4% and 5.7%.




Source: Ministry of Municipal Affairs, Municipal Statistics, 2000 (unpublished).

The weighted average municipal property tax rate plus the provincial non-residential school property tax rate for the Major Industry property class in Lower Mainland municipalities with a port industry presence was $45.5 per $1,000 of assessed value, up from $32.0 in 1988.[29] In the US ports of Seattle, Tacoma and Portland the average of property taxes and similar levies was $13.52 per $1,000 of assessed value in 1998.[30]

[29] See Table D6, Appendix D.

[30] Nowadnick, James, Overview of Property Tax Policy, Ports of Seattle, Tacoma and Portland, November, 1999.

Chart 2 shows that the highest Major Industry property tax rates are associated with municipalities where there is a large industrial facility that is generally the largest employer in the community (Port Alberni, Squamish and Kitimat). In these communities, any port terminal operations in the Major Industry property class are also directly in support of that major employer, such as Alcan in Kitimat. In many ways, port operations in these communities differ from the broad commercial port operations found in Prince Rupert and the Lower Mainland, which rely less on local economic activity to sustain the port and more on the transshipment of goods through the port to and from a wide range of locations. The actual property tax rates can be found in Appendix D.

When new capital investment attracts a tax of 4% to 6% in every year, regardless of the income generated by the property, it is difficult to earn a sufficient return in a competitive market to justify the investment. The following example has been supplied by a port industry stakeholder:

- Pulp warehouse – capital cost $6 million; expected useful life 20 years; amortization $300,000 per year; municipal and provincial property tax in District of North Vancouver at 2000 tax rates on $6 million investment $315,000.[31] Note that both property taxes and amortization will decrease over time as the cost of the improvement is depreciated. The point is that property taxes effectively doubles the cost of investment and that point stands so long as property tax rates remain above 5% in total.

Chart 2 also shows that there is considerable variability among Lower Mainland municipalities with a port industry presence in terms of Major Industry tax rates, which range from $14.9 to $40.2 per $1,000 of assessed value. There is clearly a significant difference in the costs that must be supported by new investment in different locations.

That leads to the question of how this situation arose. Local governments were given the authority to independently set property tax rates in the early 1980s. Prior to the provision of tax rate setting authority to local governments, local government was able to set one tax rate for all property classes after the provincial government made province wide decisions regarding the percentage of property value to be assessed in each property class. In 1988 the Major Industry property class was established to deal with some longstanding assessment issues related to the assessment of improvements which resulted in considerable volatility in assessed values which acted to the detriment of both industry and local government. Creation of this property class also resulted in these properties being taxed separately from other industrial and business properties. In most municipalities, there are few taxpayers in the Major Industry tax class.

Chart 3 shows how property tax rates have changed in municipalities with a port industry presence over the period 1988 to 2000.[32] It shows that there has been considerable variability in the way municipal property tax rates have changed. In all but Prince Rupert, 2000 residential property tax rates are lower than in 1988, in some cases by a considerable margin. The Major Industry tax rate has increased by about 150% in the City and District of North Vancouver.

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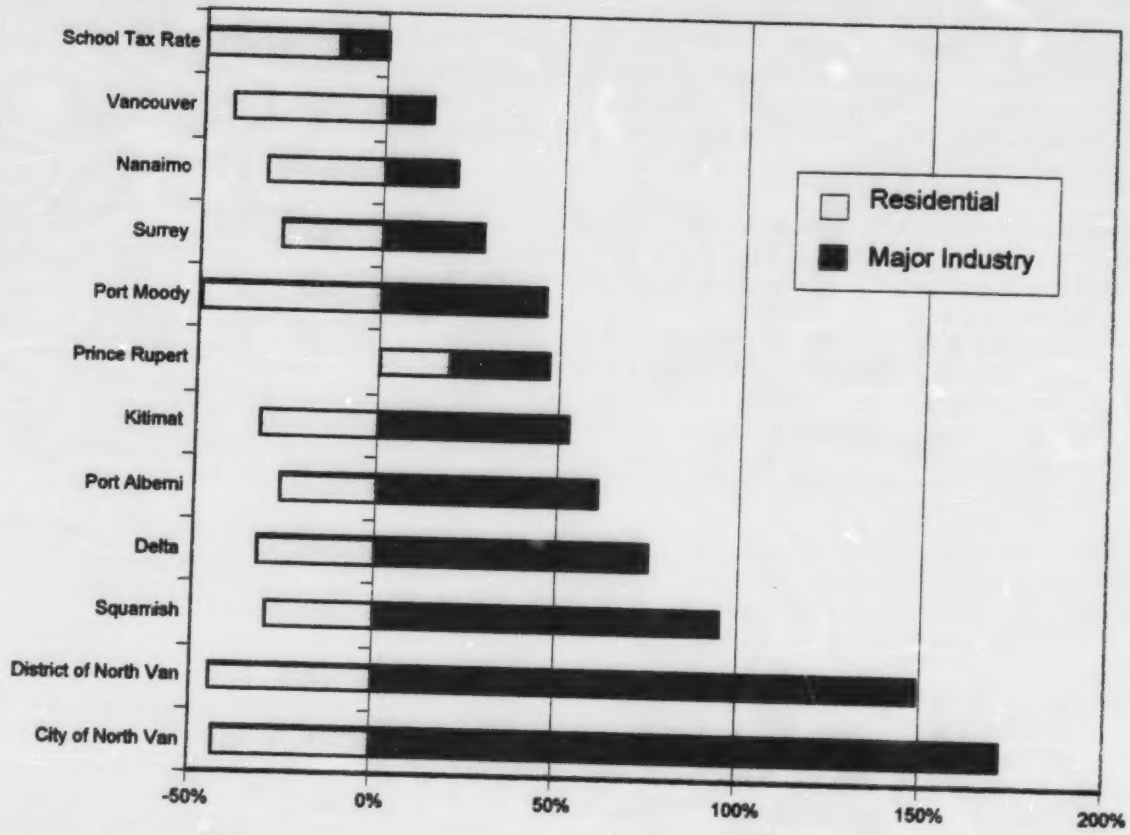
[31] District of North Vancouver property tax rate of $40.20/$1,000 of assessed value, provincial non-residential school property tax rate of $12.50/$1,000 of assessed value for a total of $52.5/$1,000 or about 5.3%. Note that the assumed depreciation rate is the same as is generally used in calculating assessed value of Class 4 port terminal improvements (5% per year). Note also that the example does not include any interest expense associated with making the investment.

[32] See Appendix D for more detailed data.

**Chart 3 – % Change in Tax Rates – 1988 to 2000**




Source: Calculated from data provided by Ministry of Municipal Affairs, including Municipal Statistics, Schedule 61, 2000 (unpublished).

That raises the question of what has happened to assessed values and property taxes over the period. Table 7 shows the percentage increase in municipal property taxes collected from the Major Industry and Residential property tax classes over the period 1988 to 2000 in municipalities with a port industry presence. The table also breaks down the total percent change into the amount of the increase due to changes in assessed value and the amount due to changes in the property tax rate. It shows a wide variety of circumstances. In the Lower Mainland municipalities shown, Residential property taxes have increased significantly (just under 100% on average) resulting from increases in the tax base in excess of 200% in all the municipalities and reductions in the rate that offset a significant amount of the increase. With major Industry taxes, there is more variability. In some cases, there was little or no increase in the tax base but rates were increased to result in an increase in taxes paid of over 150%. In other cases, both the assessed value and tax increases contributed to a significant increase. In other cases, the increase in taxes was modest compared to the increase in Residential taxes with modest increases or decreases in the tax base and tax rate.

**Table 7 – Percent Change in Taxes – 1988 to 2000**

| | | | | | | |
|---|---|---|---|---|---|---|
| City of North Vancouver | 168.6 | (1.2) | 169.8 | 70.3 | 201.0 | (130.8) |
| Delta | 362.3 | 163.9 | 198.4 | 99.3 | 196.2 | (96.9) |
| District of North Vancouver | 174.2 | 10.3 | 163.9 | 73.7 | 213.0 | (139.3) |
| Kitimat [1] | 47.3 | (3.4) | 50.8 | 60.2 | 137.3 | (77.0) |
| Port Alberni | 55.5 | (3.2) | 58.7 | 81.7 | 147.8 | (66.1) |
| Port Moody | 94.4 | 22.9 | 71.5 | 114.5 | 298.0 | (183.6) |
| Prince Rupert | 1.9 | (30.6) | 32.5 | 92.9 | 61.3 | 31.6 |
| Squamish | 51.9 | (22.2) | 74.1 | 224.2 | 364.8 | (140.5) |
| Surrey | 96.8 | 53.9 | 42.8 | 187.3 | 300.8 | (113.5) |
| Vancouver | 28.2 | 13.9 | 14.3 | 88.5 | 226.6 | (138.1) |
| GVRD w/Port Terminals | 117.3 | 28.5 | 88.7 | 105.4 | 236.9 | (131.5) |

[1] Kitimat has flat and split residential tax rates. The residential tax rate used is the average effective tax rate.

Source: Calculated from data provided by Ministry of Municipal Affairs, including Municipal Statistics, Schedule 61, 2000 (unpublished) – see Tables D5 and D6 in Appendix D.

From the perspective of the affected taxpayers, some municipalities seem to have chosen to shift the property tax burden from Residential property to Major Industry property because elected officials are sensitive to their electorate. From the municipal perspective, total assessed value of residential property has risen more quickly than the assessed value of Major Industry property. In order to keep the proportion of total taxes paid by each property class relatively constant, rates had to be adjusted, with different adjustments required in different municipalities. To examine this issue further the proportion of tax paid by each class has been examined over the period 1988 to 2000.

This is illustrated by Table 8, which shows how the percentage of total taxes collected that is attributed to the residential and Major Industry classes has changed from 1988 to 2000 in municipalities with a port industry presence.

The table shows a number of patterns. Some municipalities have kept the proportion of tax collected from each class relatively constant over the period (e.g. Kitimat, Port Alberni, Surrey, Vancouver). Some increased the proportion collected from the Major Industry property class during the period but have since reduced it back to about the 1988 level (e.g. Port Moody). Others increased the proportion early in the period and have maintained a higher proportion (e.g. Delta, the City and District of North Vancouver) and some have shown significant reductions (e.g. Nanaimo, Prince Rupert, Squamish). Often these patterns have a mirror image in the pattern for the proportion of taxes collected from the residential property class.

**Table 8 – Percent of Total Taxes by Property Class**

| Municipality | Residential | | | Major Industry | | |
|---|---|---|---|---|---|---|
| | 1988 | 1995 | 2000 | 1988 | 1995 | 2000 |
| City of North Vancouver | 55.6% | 45.5% | 46.2% | 13.9% | 18.8% | 18.3% |
| Delta | 68.2% | 62.2% | 58.4% | 3.0% | 5.9% | 5.9% |
| Kitimat | 13.7% | 12.9% | 14.8% | 80.2% | 81.9% | 79.9% |
| Port Moody | 55.8% | 51.2% | 58.2% | 24.3% | 34.0% | 23.0% |
| Richmond | 51.9% | 53.2% | 49.8% | 1.3% | 1.1% | 0.9% |
| Surrey | 70.7% | 70.5% | 70.1% | 0.7% | 0.5% | 0.5% |
| Nanaimo | 57.1% | 59.6% | 61.4% | 10.9% | 11.9% | 8.7% |
| Vancouver | 39.8% | 42.2% | 42.7% | 1.7% | 1.9% | 1.3% |
| West Vancouver | 88.6% | 91.6% | 91.7% | 0.1% | 0.0% | 0.0% |
| Pitt Meadows | 65.0% | 63.8% | 64.9% | 3.8% | 2.8% | 1.3% |
| Port Alberni | 32.8% | 33.7% | 36.2% | 48.0% | 47.1% | 45.4% |
| GVRD w/Port Terminals | 49.5% | 51.6% | 51.6% | 3.0% | 3.9% | 3.4% |

Source: Calculated from data provided by Ministry of Municipal Affairs, including Municipal Statistics, Schedule 61, 2000 (unpublished)

It has been suggested that the assessment system itself has contributed to the increase in rates. That is because improvements are assessed at depreciated cost, so the assessed value of a given improvement decreases each year. In general, improvements that are being used are depreciated at 5% per year up to 80% of their cost. Improvements account for about 70% of the assessed value of port terminals so in the absence of new investment, the assessed value of port terminals will decrease by about 3.5% per year. This may explain some of the increase in Class 4 tax rates in Lower Mainland municipalities with port terminals. However, it begs the question of whether, with a stable or shrinking tax base, it is appropriate to maintain the proportion or increase the proportion of tax collected from a given property class when the tax base for other property classes is increasing.

Whatever the motivation of the municipalities and the patterns observed, the result has been that tax rates that apply to port terminals have increased significantly in some municipalities. Some rates have reached a level where they are a significant proportion of operating costs and a significant incremental cost for new capital investment. That represents a substantial disincentive for investment and the wide divergence in rates across the Lower Mainland has resulted in competitive inequities within the region.

Port stakeholders point to one circumstance in particular that demonstrates this point – the case of Vancouver Wharves. Vancouver Wharves is a port terminal in the District of North Vancouver that was purchased by the BC Rail Group in 1993. As a result, it became exempt from property taxation because of Provincial government ownership, although payments in lieu

of taxes equal to the full municipal property tax amount were paid up to 1996.[33] At that time, the provincial government determined that Vancouver Wharves required significant capital investment to remain competitive with the US but that it could not afford to pay higher property tax amounts. Beginning with 1997, payments in lieu of property taxes were capped at the pre-investment level of $2 million and a $110 million capital expansion proceeded. If not for the cap, Vancouver Wharves would have paid $5.8 million in 2000 rather than the $2 million actually paid. The District of North Vancouver has reportedly requested that the provincial government require Vancouver Wharves to make payments equal to the full amount of the municipal property tax.

### Investment Risk Issues

As indicated above, the assessment and management of risk is an important part of the investment decision-making process. There are many elements of risk. Many areas of risk are beyond government control but others are directly related to government policy and activity.

One area of risk is the question of certainty regarding taxation and other government charges.

Another is certainty about the regulatory environment. This is directly related to the issue of constraints on the ability to operate, whether related to environmental issues, health and safety concerns or the convenience of adjacent property holders. While there is always some uncertainty regarding possible environmental and health and safety regulatory measures, that is a fact of life for businesses in all industries throughout North America. The question of whether British Columbia is competitive in this regard is a broad question that goes well beyond the ports industries and is not addressed in this paper. However, the "gentrification" of property adjacent to ports land in the Lower Mainland is a source of risk specific to the port industries that acts as a disincentive to invest or, in some cases, as an absolute barrier to investment.

Labour relations issues are another source of considerable uncertainty and competitive concern. The risk of work stoppages can have a considerable impact on shippers routing decisions, crating risk associated with revenues that can be earned from investments. In accordance with the Terms of Reference, labour relations issues are considered beyond the scope of this review.

[33] As a subsidiary of a Crown corporation, Vancouver Wharves does not pay provincial non-residential school property tax.

# OPTIONS

In this section of the report, a number of options for dealing with issues discussed in the previous section are identified and analyzed. The following is a brief description of the considerations that will be taken into account in analyzing each option, which is followed by an analysis of the options.

It should be noted that the options are **not** presented in order of effectiveness, feasibility or acceptability and no conclusions should be drawn from the order in which the options appear. The order of the options is based on starting with a no change option followed by minimal change options, options related to changing the property taxation and assessment systems, options for direct provincial government programs to benefit port industries, options to address land use issues and an option to deal with federal issues.

It should also be noted that most of the options are not mutually exclusive, so that a combination of options is possible. In fact, the options have been structured to try to deal with specific components of the issues raised, and a combination of options may be required to deal comprehensively with the set of issues.

## *Analysis Criteria*

### EFFECTIVENESS IN ACHIEVING THE OBJECTIVE

The first consideration in the analysis is how well an option would achieve the objective. That requires that the objective be clearly stated in advance. The Review Group has agreed upon the following statement of the objective:

> "Given the strategic economic importance of ports as a key element of the Canadian transportation system, and as a significant economic player in their own right, **the objective is to enable BC ports, terminal operators and other port businesses to continue to grow and expand** in order to provide Canadian businesses (importers and exporters) with the transportation infrastructure and efficient services they need to successfully trade and compete in world markets".

As suggested above, to achieve this objective requires a level competitive playing field that does not discourage investment in British Columbia ports. The impact of each option on this will be discussed.

### ECONOMIC IMPLICATIONS

Under this heading the likely economic impacts of each option will be analyzed, including macroeconomic implications and economic impacts on business and individuals, especially economic impacts other than impacts related to achieving the objective, which is itself largely an economic objective.

#### Social Implications

Under this heading, implications such as effects on the ability of local government to perform the functions required of it, any implications for the disadvantaged such as regressivity of tax measures, for example, and any implications for health and safety are analyzed. Since there are few, if any, environmental implications, they will also be discussed under this heading rather than under a separate heading.

#### Fiscal Implications

Fiscal implications for all three levels of government will be discussed under this heading.

#### Administrative Feasibility

This heading provides an opportunity to analyze whether or not an option will be administratively complex, have significant compliance costs associated with it or have a degree of uncertainty due to lack of models in British Columbia or elsewhere for the measure in question.

#### Public Acceptability

Under this heading, the factors which will determine whether or not a given measure is likely to be publicly acceptable will be discussed. This is included in the analysis because measures that are not acceptable to the public will likely not be sustainable in the long run.

## *1. Status Quo*

#### Description

The status quo option would mean that there would be no changes at this time. The status quo is traditionally the first option, since it is the option against which others are measured.

#### Effectiveness in Achieving the Objective

Ports stakeholders believe that unless some changes are made in the near future, needed investment will not take place and the ports in British Columbia will begin a gradual and inevitable decline from which it will be difficult or impossible to recover. They argue that the factors which have allowed the ports to be successful in increasing the volume of goods moved through the British Columbia ports over the past decade or so are about to change with the major investments in competing US port and transportation facilities and infrastructure.

Although no references have been found to support the following, it seems self-evident that there are some who do not believe any action is necessary. There are a number of arguments that could be used to justify no action by the provincial government, including:

- this is not a provincial issue, it is a federal and local government issue. While many aspects of ports policy is federal, the analysis provided above does indicate that there are significant issues that lie within provincial jurisdiction;

- any traffic diverted to US ports will be marginal at most because the British Columbia ports have a significant locational advantage for most of the goods shipped through the ports that can not be easily overcome through US investment. That is true for some proportion of port traffic, but with the investment being undertaken in the US (particularly the proposed Cherry Point facilities) and the prospect of a strengthening dollar, there is a growing component of port traffic that could be lost if there is under-investment; and

- port land, especially around Vancouver harbour, does have a higher and better use in non-industrial roles with a net economic gain from converting the port to other uses and diverting the traffic to other ports, including ports in northern British Columbia and US ports. That is, the objective is wrong and nothing either needs or should be done to promote growth of British Columbia's port industries. As discussed above, while that view may be justified from a local perspective, from a provincial and national perspective, ports have a significant economic and strategic importance.

### Economic Implications

The economic implications depend on the view of the world to which one subscribes. If one believes that having vital and efficient ports is important to the economy of Canada and British Columbia and that ongoing investment is required to achieve that, then the implications of not taking action to improve the investment climate will be a substantial economic loss.

If one believes that British Columbia's ports can maintain their position without investment or that British Columbia would be better off with less port activity, then the status quo option would be economically beneficial, but the analysis indicates that this would be true locally, at best.

### Social Implications

The status quo option would benefit those individuals whose convenience is negatively affected by port industries, such as those using adjacent property for residential purposes. There would be social costs to the extent the status quo option resulted in a decline in port activity and therefore a loss of jobs in and around the ports. There may be environmental costs if investment that would reduce environmental impacts was deferred or cancelled.

### Fiscal Implications

The status quo is the base-case to which other options are compared in terms of fiscal implications. By definition, there are no fiscal implications of the status quo, although to the extent that port activity and jobs were reduced over time, there would be provincial fiscal losses as compared to the present.

### Administrative Feasibility

Since no changes would be made, there are no issues associated with administrative feasibility.

#### PUBLIC ACCEPTABILITY

If and when investments begin being cancelled, traffic begins being diverted and jobs begin being lost, that may raise issues with the public. Some argue that by then, it will be too late or much more costly to make needed changes. In the short run, it is unlikely that the public would take much notice of the fact that nothing was being changed vis-à-vis the British Columbia ports.

## 2. *Local Government Act Guideline on the Importance of Ports*

#### DESCRIPTION

The provincial government could issue a guideline under the *Local Government Act* and the *Vancouver Charter* indicating that British Columbia's ports are a national and provincial strategic economic resource which must be taken into account in local government land use planning and the Minister of Municipal Affairs could issue a statement setting out the provincial government's expectations regarding property taxation of port industries. The statement would also indicate that the provincial government would adopt the same principles in setting non-residential school property tax rates.

The intention would be to highlight and profile the potential for conflict between national/provincial and local interests in the treatment of ports and to encourage local governments to take the broader interests into account. However, the guideline and statement would have no binding effect and would not limit existing local government authority.

#### EFFECTIVENESS IN ACHIEVING THE OBJECTIVE

The measure would likely have an effect on the decisions made by at least some local governments and therefore may help to achieve the objective. However, because the result would not likely be equal in all relevant local governments and decisions would change over time, the result could be to exacerbate competitive inequities within British Columbia. It would likely have minimal impact on the decisions of port stakeholders due to the risk of policy changes over time.

#### ECONOMIC IMPLICATIONS

To the extent that the measure is effective in achieving the objective, there will be positive economic effects. No other economic effects are likely.

#### SOCIAL IMPLICATIONS

There are no obvious social implications.

#### FISCAL IMPLICATIONS

There may be fiscal implications for those local governments that change their tax rate setting decisions as a result of the guideline. Any reduction in revenue from ports property would likely

have to be offset by increases in other taxes from other property classes or other revenue sources.

#### ADMINISTRATIVE FEASIBILITY

There are no administrative concerns associated with implementing this measure. It can be done at any time by the Minister of Municipal Affairs.

#### PUBLIC ACCEPTABILITY

There are no public acceptability concerns with this measure.

## 3. *Port Accord on Property Taxation and Land Use*

#### DESCRIPTION

Under this option, local government, port stakeholders and government would agree to negotiate in good faith to develop an accord with a clearly defined objective and, if agreement is reached, to implement the commitments made in the accord. Since the majority of issues seem to be related to the Lower Mainland municipalities with a port industry presence the accord process could be limited to those ports and the related local governments and port stakeholders.

For example, the objective of the accord might be to address, in a mutually acceptable way, the current issues affecting ports stakeholders and local governments, potentially including:

- ports land use planning;
- property taxation;
- payments in lieu of taxes by Provincial Crown corporations;
- issues related to federal policy on which the parties could make joint representations; and
- other issues.

This option can only work if all parties agree at the start about the terms of reference including the objective and scope of the negotiations and potential accord.

The provincial government would need to be prepared to enact legislation needed to support an accord, such as mechanisms agreed by local governments to address property taxation and land use planning issues. For example, any agreement to share tax revenues and/or cap taxes might require supporting legislation.

#### EFFECTIVENESS IN ACHIEVING THE OBJECTIVE

If successful in reaching an agreement that does address the issues, this option could be effective in meeting the objective. However, it is anticipated that it would meet an immediate challenge in defining the scope of the negotiations as local governments have already suggested that issues such as Port of Vancouver waste discharge requirements should be

included in discussions while the Port and port stakeholders feel that this is not an issue related to ports competitiveness and should be dealt with on a separate track. In general terms, local governments have expressed concerns about whether this option would be practical.

#### ECONOMIC IMPLICATIONS

The economic implications would depend on the nature of the accord agreed upon. If effective in achieving the objective there would clearly be economic benefits associated with ports competitiveness. Whether there are additional benefits or costs depends on the specific measure agreed.

#### SOCIAL IMPLICATIONS

Because this option is based on a negotiated agreement among all of the interested parties, there should be few if any negative social implications. There may be equity concerns if there is special treatment for Lower Mainland local governments by the provincial government.

#### FISCAL IMPLICATIONS

Depending on the agreement reached, there would likely be fiscal implications for both local and provincial governments. The negotiated nature of the measure should act to ensure the fiscal costs are fairly distributed.

#### ADMINISTRATIVE FEASIBILITY

As noted above, it is likely that negotiated measures would require support through Provincial legislation. The specific administrative issues that would need to be resolved would depend on the specific measures agreed.

#### PUBLIC ACCEPTABILITY

As a negotiated set of measures that would have to be adopted by municipal councils, there are unlikely to be significant public acceptability concerns, unless there is a perception that the accord is unfair to other industries or local governments.

## *4. Limit Local Government Tax Rate Authority*

#### DESCRIPTION

There are a number of different ways that this could be accomplished but they would all take the form of legislation that would limit or remove the ability of local governments to independently set tax rates as they apply to certain property. All of the different ways that this could be done would, in principle, have similar implications so they are being considered as one option.

Examples of ways this could be accomplished include:

- Set by statute a ratio that must apply between residential tax rates and the tax rate that applies to Major Industry property including port terminals.[34] The ratio currently ranges from 3:1 to over 12:1.

- Set a ratio that must not be exceeded between residential property and certain ports property, which would mean establishing pert property in separate property class;

- Set an absolute cap on the tax rate that can be applied to certain ports property, also implying a separate port property tax class; or

- Set the municipal tax rate that would apply to certain ports property (in a separate property class) so that the same rate applies in all municipalities.

As indicated above, to restrict the application of this option to only certain ports property might require placing this property in a separate property class or otherwise specifically identifying the property in statute. The measure would be targeted at ports property that currently falls in the Major Industry property class, which would limit the measure to property used for cargo handling (port terminals) and shipbuilding and repair.

### Effectiveness in Achieving the Objective

The effectiveness of this option would depend upon exactly what was done and the extent that it reduced relatively high existing tax rates. If the result was a significant reduction in the highest tax rates and a significant reduction in the variance in tax rates across municipalities, the option could encourage considerable investment and make a strong contribution to achieving the objective.

### Economic Implications

The direct economic implications would be an economic benefit, to the extent that the measure is successful in achieving the objective and helping to maintain a robust port industry.

To the extent that reductions in property taxes paid by port industries result in increases in property taxes paid by others, some of the economic benefits for the ports would be offset by costs placed on others. Since Major Industry taxes represent in aggregate only 5% of property taxes paid in port municipalities and some of that is paid by non-port industries, the macroeconomic impact of increased costs faced by other taxpayers of a reduction port taxes should not be too significant unless municipalities choose to target a specific property class to regain the lost revenues. However, in some cases the impact on other taxpayers could be significant.[35]

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[34] Note that this could generate both tax increases and tax decreases for port industries.

[35] For example, if Major Industry property taxes in the City of North Vancouver were cut in half, that would result in a 11% tax increase for other taxpayers but it would be about 6% in the District of North Vancouver, 3% in Delta and 0.6% in Vancouver. For the Lower Mainland municipalities with a port industry presence, each reduction in the average Major Industry property tax rate of $1 per $1,000 of assessed value would reduce taxes collected by about $634,000 or 0.1 percent.

From an economist's perspective, the argument for this option is that, at present, property taxes for cargo handling facilities in the ports represent a barrier to investment in some areas and cause competitive inequities within British Columbia. These market distortions prevent the market from efficiently allocating resources. A measure that reduces this distortion would not usually be considered a subsidy but rather a regulatory measure intended to address a market failure.

#### Social Implications

The primary social implication is related to the loss of autonomy experienced by local governments.

#### Fiscal Implications

Local governments that face an involuntary reduction in property tax revenue would have to make up the revenue from other sources or cut services. The increase in the burden to other property taxpayers would not be significant in most cases but in ports where the port is primarily used to ship a particular product (e.g. Kitimat, Port Alberni) or if a relatively large proportion of tax is collected from port properties, the impact could be more severe. Limiting the measure to only ship building and cargo handling would ensure it is specifically directed at port activities and does not inadvertently reduce taxes from other industrial land in port municipalities.

Depending on the amount of investment induced by the change, some of the tax revenue lost in the short run could be recovered through the increase to the tax base as a result of the investment.

#### Administrative Feasibility

This type of measure would require legislation and would require a certain amount of work to define port property. Once this and other policy issues are addressed, implementation would be straightforward.

#### Public Acceptability

The major issue with public acceptability would be related to increased residential property taxes. Although there would likely be significant increases in only a few municipalities, the outcry could be significant. Local governments are also likely to be opposed since this would represent a loss of autonomy that could set a precedent for other industries that believe they are also competitively disadvantaged by municipal property taxation.

## *5. Remove Ports Property from the Major Industry Property Class*

#### Description

This option would be intended to reduce tax rates by removing port terminals and shipbuilding and repair facilities from the Major Industry property class. This property is currently in the Major Industry class because the industries are specifically listed in the statute. If the law were changed to eliminate that provision, most of the port property would naturally be classed in

either the Light Industry or Business and Other property classes, both of which have lower tax rates in almost all port municipalities than the Major Industry class.[36] Because these classes also have many other taxpayers in most municipalities, there would be some natural constraint on the municipality raising the tax rates to match the Major Industry rate.

Removal of the property from the Major Industry class would also allow the improvements to be assessed using the income or comparison methods. That would result in the assessment of improvements no longer varying with the age of the improvement, removing a disincentive to investment but increasing the variability of the assessed value of the improvements.

### Effectiveness in Achieving the Objective

This option could be relatively effective in achieving the objective, dealing in part with two of the investment disincentives – tax rates and improvement assessment methodology. The effectiveness in dealing with the tax rate issue would depend on which port properties were reclassified into which property classes and how the municipalities reacted in terms of setting the tax rates for these classes.

Unless coupled with a limitation on tax rates, this option may not provide port industries with the certainty they need to fully remove the barrier to investment. However, given the large number of taxpayers and value of property involved, the option does not contemplate limits on local government authority to set Light Industry and Business and Other tax rates.

It should also be noted that the change in assessment methodology would address the port stakeholder concerns about treating older and newer improvements on the same basis, but it would make the assessments less stable and likely encourage frequent complex assessment appeals, also increasing costs and uncertainty.

### Economic Implications

The economic implications would be similar to the implications described for Option 4 - Limit Local Government Tax Rate Authority.

### Social Implications

There would be no social costs associated with removing local government autonomy, since local government authority would be unaffected. There are no other obvious social implications.

### Fiscal Implications

The fiscal implications would be similar to Option 4 – Limit Local Government Tax Rate Authority. In addition, there would be a direct fiscal cost to the provincial government. The non-residential school property tax rate for major industry is $12.5 per $1,000 of assessed value while the rate for light industry and business and other is $9.90. It is unlikely the provincial

[36] See Table D1, Appendix D. Note that one port terminal, the Annacis Auto Terminal, is currently classified in the Light Industry class because it only deals with imports, while the statutory description of port terminal operations specifies export cargo handling operations "(loading cargo onto sea going ships or barges").

government would adjust its rates based on such as relatively small shift in value among property classes.

#### ADMINISTRATIVE FEASIBILITY

There do not seem to be many concerns about administrative feasibility. A minor legislative amendment would be needed.

#### PUBLIC ACCEPTABILITY

There may be some public outcry if residential property taxes rise as a result of this change, similar to Option 4 – Limit Local Government Tax Rate Authority. However, there may be fewer grounds for local government to object to this option than to Option 4 – Limit Local Government Tax Rate Authority.

## *6. Investment Property Tax Holiday*

#### DESCRIPTION

Rather than reducing property tax rates for all ports property, tax rates could be specifically reduced for new investment in improvements. This could be done:

- on a voluntary basis by enabling local governments to enter into agreements to apply a lower property tax rate to new improvements on ports property; or
- by setting a tax rate for new investments in improvements on ports property in legislation.

The second alternative is similar to Option 4 – Limit Local Government Tax Rate Authority in that it would limit local government authority to set tax rates.

#### EFFECTIVENESS IN ACHIEVING THE OBJECTIVE

By specifically targeting investment, this option could be quite effective at encouraging investment, depending on the length and size of the tax reduction provided.

Similar tax holidays were made possible during the mid-1980s under the Partners in Enterprise program, but it had little take-up by local governments. Tax benefits might have to be more significant than were available under that program and the benefit may need to be available for a longer time period to make a new initiative work.

#### ECONOMIC IMPLICATIONS

The direct economic implications of this option would be the benefits that arise from continued robust port activity, to the extent the option is effective in achieving the objective.

There are also economic implications to the extent that this measure represents a subsidy to the specific projects that qualify. While it can be argued that changes to property taxes generally are justified because at present they represent market distortions, it could be argued that

selective property tax reductions, such as this, exacerbate the economic distortion. On the other hand, it could also be argued that the net result is to reduce the impact of the existing barrier to investment in areas due to property taxes so that the measure is justified if it is not feasible to address the more general market distortion.

#### Social Implications

There would be a loss in local government authority if the province set the terms of the tax holiday for all new investment. That would not be an issue with a voluntary program.

There may be equity concerns related to investments made prior to the introduction of the program and therefore not eligible for a tax holiday. That could be addressed by making the tax holiday retroactive for some period. There would also be equity concerns with a voluntary program if the result was that some competitors qualified for a tax holiday and others did not.

#### Fiscal Implications

There should be little or no fiscal impact.

#### Administrative Feasibility

The administrative details of the program would require considerable effort to resolve, in consultation with ports stakeholders and local governments. However, the previous program would serve as a model and there is no obvious administrative impediment that would be difficult to overcome. Legislation would be required.

#### Public Acceptability

Since there would be no reason for residential or other taxes to increase and little grounds for local government resistance, there are no obvious public acceptability concerns with this option.

## *7. Port Property Reserve/Assessment of Port Property*

#### Description

Currently port land (as distinct from improvements) is assessed according to its highest and best use, which reflects the value of adjacent property that can be readily valued in comparison to market sales of similar property, subject to zoning restrictions. Although port terminals and shipbuilding operations only take place on land zoned for industrial use and the land is therefore only assessed in its highest and best industrial use, assessed values of land have increased significantly in recent years as demand for scarce waterfront land has increased for all uses, including industrial.

However, ports stakeholders point out that federal Crown land managed by port authorities is restricted by the CMA in its uses and there is no prospect of it changing its use to other industrial use. Further, they suggest that there should be similar restrictions on the use of private property currently used for port industrial purposes. Then, both CMA and private restricted-use port property should be assessed based on its restricted use for ports industrial

purposes rather than in its highest and best industrial use. As a result, the port stakeholders believe property would be protected from changes in use and property assessment would be less affected by increases in market value of adjacent property.

Specifically, the measure would be to establish a "Port Land Reserve" similar to the Forest Land Reserve. Private owners of ports property[37] could voluntarily seek registration of their property based on established criteria, which would result in a change to the way the land value is assessed and would place restrictions on the use of the property. Changes to non-port use would trigger repayment of some or all of the taxes avoided by the lower assessed value of the property.

#### Effectiveness in Achieving the Objective

This measure might reduce property assessments somewhat at the present time[38] and increase certainty about the continuing availability of port industrial property. However, it should be noted that it would not necessarily reduce property taxes since, unless restricted by a measure such as Option 4 – Limit Local Government Tax Rate Authority, local governments would be free to increase property tax rates to maintain the total amount of tax revenue collected from the property. It should also be noted that in times of a downturn in the general property market, this measure might serve to keep the assessed values of port property relatively high.

#### Economic Implications

To the extent that this option helps to achieve the objective there would be economic benefits. There are no other obvious economic costs or benefits to the measure.

#### Social Implications

There are social implications associated with the reduction of choice in the use of property that may be highly valued for residential or commercial purposes. However, there would also be social implications if there were a loss of jobs associated with loss of the port land base.

#### Fiscal Implications

Local government tax revenues from port property would be affected by any reduction in assessed value, which could cause increasing tax rates, increasing other revenues or reducing service. There would also be a slight reduction in provincial non-residential school property tax revenues if assessed values decreased, but it would not likely be material.

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[37] Note that this would apply only to non-CMA property since the Province has no jurisdiction over property owned by the federal Crown.

[38] There is no evidence available to indicate to what extent land assessments would decrease if the use of the land were restricted to port industrial uses.

### ADMINISTRATIVE FEASIBILITY

There would be administrative difficulties in establishing market values for property used for port purposes because the property changes hands relatively infrequently.[39] There would also be administrative costs associated with establishing and maintaining the port land reserve.

### PUBLIC ACCEPTABILITY

It does not seem likely that this measure would generate much public reaction either positive or negative. Local governments would generally be opposed to this option to the extent that it reduces their autonomy to establish land use policy.

## 8. *Exempt Vacant CMA Land from Assessment*

### DESCRIPTION

Port authorities generally maintain an inventory of vacant land for future development and expansion purposes. That land is assessed for property tax purposes and that assessment is a factor in determining the amount of any payments in lieu of taxes by the port authority to local government and the provincial government. Port authority revenues used to fund payments in lieu of taxes are generated by rents and other charges levied on ports users. Therefore, all existing occupiers of CMA land pay a share of the taxes on this vacant property. Occupiers of private property used for port purposes do not contribute. That results in a local competitive equity issue as well as a competitive issue with US ports, where such land is not taxed.

The measure would be to change the *Assessment Act* or regulations to specify that vacant CMA land not be assessed for property taxation purposes. Once the land is put into productive use, it would again be assessed. As noted below, the provincial government may not have the jurisdiction to implement this option.

The reason that vacant land is currently assessed and taxed is for fairness and to encourage productive use of land. Port authorities argue that they already have a strong incentive to use the land and the property tax on the land may represent an incentive to convert it to non-port use. Others believe removing the land from taxation would reduce the incentive to put the land to productive use. Nevertheless, providing an exemption to vacant CMA land would set a precedent that would generate pressure from other holders of vacant land, which could undermine the public policy principles upon which market value assessment is based.

### EFFECTIVENESS IN ACHIEVING THE OBJECTIVE

If technically feasible, this measure would contribute to achieving the objective by potentially reducing overall costs and removing an element of local competitive unfairness, although the impact would likely be small. However, as with Option 7 – Port Property Reserve, reductions in total assessed value could be offset by increases in tax rates. The result would therefore not

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[39] Most recent transaction of private port property have involved changes of use to non-ports purposes or acquisitions by the port authorities for which the market price was set by highest and best use.

necessarily be a reduction in the total tax burden for port property, although it might result in a fairer distribution of that burden (i.e. to all private and CMA property rather than just to CMA property).

#### Economic Implications

To the extent that this option helps to achieve the objective there would be economic benefits. There are no other obvious economic costs or benefits to the measure.

#### Social Implications

There are no obvious social implications of this measure.

#### Fiscal Implications

Local governments will be affected by any reduction in assessed value, which could result in increased tax rates, increasing other revenues or reducing service. In this case, the change in assessed value would be quite small as relatively little property would be affected. There would also be a small reduction in provincial non-residential property tax revenues but it would not likely be material.

#### Administrative Feasibility

If technically feasible, this would be a relatively straightforward measure to implement, but would require legislation. The technical issue is whether the province has the jurisdiction to make this change with respect to land under federal jurisdiction (CMA land) and whether such a change in provincial legislation would have any impact on federal payments in lieu of taxes. If federal legislation would be required, it would be difficult or impossible to implement. Given the uncertainty over this issue, the concerns about the precedent that would be set and the relatively small size of the impact, this option seems unlikely to be given a high priority.

#### Public Acceptability

This option would likely generate calls from other holders of vacant land for a similar exemptions and a dispute between those seeking to lower taxes and those seeking to protect the integrity and fairness of the market value assessment system or to avoid the increase in tax that would result from the widespread exemption of vacant land from taxation.

## *9. Provincial Investment Tax Credit*

#### Description

The provincial government currently provides a 3% investment tax credit against corporation income tax for various types of investment in manufacturing and processing buildings and equipment but that does not include investment by port industries. This measure would extend that program to include investments in buildings and equipment by port industries.

### Effectiveness in Achieving the Objective

This measure would have a direct impact on achieving the objective since it would be a direct incentive to encourage investment. The effectiveness of the measure depends upon port industries having taxable income against which to apply the tax credit. The extent to which port industries are currently taxable for income tax purposes is not known.

### Economic Implications

To the extent that this option is effective in achieving the objective, there will be economic benefits associated with continued robust port activity.

However, there may also be economic implications associated with how this option would help to encourage investment. With some other options, such as Option 4 – Limit Local Government Tax Rate Authority directed towards reducing property taxes, the economic argument is that property taxes in some municipalities have become a significant barrier to investment and a source of competitive inequity within British Columbia. In other words, a market distortion, correction of which would improve the efficiency of the market in allocating investment. This option represents a subsidy that would be intended to partially offset that market distortion, but without any direct connection to the source of the distortion. Some economists may argue that the net result of two market distortions is not necessarily a more efficient allocation of investment capital. In particular, depending on what investment specifically qualifies and which firms are in a taxable position, the program could introduce additional competitive inequities within British Columbia.

### Social Implications

There are no obvious social implications of this measure.

### Fiscal Implications

This measure would have a direct fiscal cost to the provincial government to the extent that it reduced corporation income tax paid by port industries. That would be offset to some extent by revenues generated by any incremental investment activity induced by the measure.

The program would have to be developed in detail in order to estimate the specific fiscal impact.

### Administrative Feasibility

This measure would be administratively feasible but relatively complex to implement. The current provincial investment tax credit program is harmonized with, and relies upon, a federal program enabled by provisions in the federal *Income Tax Act*. There is no federal program or federal legislation that would enable this option. Therefore, the definition of what investment qualifies would have to be developed and put in place through legislation. Although provincial income tax in British Columbia is administered on the province's behalf by the Canada Customs and Revenue Agency, there would also likely need to be provincial administration to determine which specific investments qualify, as is currently the case with the Film Tax Credit.

#### PUBLIC ACCEPTABILITY

It does not seem likely that this measure would generate much reaction either positive or negative from the general public. However, other industries such a mining and logging that are envisioned in the federal legislation but not included in the current provincial program would very likely use this measure to pressure the provincial government to extend the program to include those industries, and perhaps others, as well.

## *10. Exempt Port Terminals from PST on Machinery and Equipment*

#### DESCRIPTION

The provincial sales tax (PST) currently applies to most purchases of machinery and equipment. Under this measure, port industries would be exempted from sales tax on machinery equipment purchased as part of significant investment in new port facilities.

Some other provinces, notably Ontario, provide an exemption from the PST for machinery and equipment used in **manufacturing and processing**. That exemption does not apply to machinery and equipment used in service industries, including transportation.

An alternative approach to a broad machinery and equipment PST exemption would be for the province to harmonize its tax with the GST, which shifts the incidence of the tax to the ultimate consumer which is usually not business. It is believed that a harmonized tax with a 7% rate would be revenue neutral to the provincial government. However, that would affect all businesses and individuals in the province, not just port industries, so it is not explored as an option in this review.

#### EFFECTIVENESS IN ACHIEVING THE OBJECTIVE

This measure would be a direct reduction in the cost associated with investing in port facilities and therefore would make a direct contribution to achieving the objective.

#### ECONOMIC IMPLICATIONS

To the extent that this measure is successful in achieving the objective, there would be economic benefits associated with the ports industries continuing to be robust. Unless the measure were more broadly applied by exempting all machinery and equipment from PST, it could be viewed as an unfair advantage to port industries and, like Option 9 – Provincial Investment Tax Credit, could be argued to be a subsidy that may further distort the market. PST on machinery and equipment has been a longstanding issue with the British Columbia business community.

#### SOCIAL IMPLICATIONS

There are no obvious direct social implications of this measure.

#### Fiscal Implications

This measure would have a direct fiscal impact on the provincial government as PST revenues decrease. The Ministry of Finance and Corporate Relations has estimated that the impact of eliminating all PST on machinery and equipment used in manufacturing and processing would be $120 to $140 million and the cost of eliminating the PST on all machinery and equipment would be several times more expensive. The cost of an exemption for machinery and equipment in port industries only, assuming $200 million annual investment and 40% spent on machinery and equipment, would be $5.6 million.

#### Administrative Feasibility

An administrative mechanism for the exemption would need to be established and an amendment to the *Social Services Tax Act* and/or the regulations would be required. Implementation would be relatively complex. Administration could take the form of applying to register specific investment projects and then applying for a rebate of the tax associated with the projects, since it would be difficult at best to arrange for the exemption to be applied at the point of sale, where the tax is collected.

Although technically feasible, it would not likely be practical to provide an exemption only for port machinery and equipment when the machinery and equipment exemption for manufacturing and processing has been an ongoing issue with business in general for a significant period of time. This option could also lead to pressure to not only introduce a broad exemption but to expand it beyond manufacturing and processing in other ways.

#### Public Acceptability

The business community would likely react strongly because the PST on machinery and equipment generally is seen as a major source of competitive inequity compared to British Columbia's main competitors. In this respect, it is unlikely that a credible case could be made that ports are unique.

### *11. Exempt Port Industries from the Corporation Capital Tax*

#### Description

Corporation Capital Tax (CCT) applies to the value of assets in a corporation. In recent years, for corporations other than financial institutions, the threshold at which the tax applies has increased and rate has been reduced.[40] Nonetheless, port industries are still in a taxable position with aggregate taxes paid estimated to be roughly in the order of $1 million annually. As a result, increases in assets as a result of investment increase the tax payable and provide a disincentive to invest. This measure would provide an exemption from CCT for port industries.

[40] CCT is 0.3% of paid up capital of more than $2.75 million, with a phase-in beginning at $2.5 million.

#### EFFECTIVENESS IN ACHIEVING THE OBJECTIVE

This measure would remove a disincentive to investment and directly contribute to meeting the objective.

#### ECONOMIC IMPLICATIONS

The primary economic implications would be associated with the measure's contribution to achieving the objective. There could also be fairness concerns about providing port industries an advantage over other industries that would still be subject to the tax. As discussed under Option 9 – Provincial Investment Tax Credit, this could be viewed as a subsidy if directed towards a specific industry and not directly linked to the market distortion that has been identified.

#### SOCIAL IMPLICATIONS

There are no obvious direct social implications.

#### FISCAL IMPLICATIONS

This would reduce provincial government revenues by an estimated $1 million. There may be secondary fiscal benefits to the extent that investment induced by the measure generates economic activity and therefore government revenues.

#### ADMINISTRATIVE FEASIBILITY

Legislation would be required, including a clear definition of which firms qualify for the exemption. Since port terminal operators are generally part of large corporate entities that engage in other businesses as well, the measure could be complex to implement.

#### PUBLIC ACCEPTABILITY

It does not seem likely that this measure would generate much reaction either positive or negative from the general public but would likely generate calls from other industries for similar treatment.

## *12. Protect the Ability to Operate on Port property*

#### DESCRIPTION

There are two issues related to encroachment on port property, the erosion of the land base and the ability to continue to undertake industrial operations on port property. The first is addressed by Option 7 – Port Property Reserve. This option would address the second.

The measure would be in the form of new legislation similar to the *Farm Practices Protection (Right to Farm) Act*, which limits the ability of local government to limit the ability to conduct agricultural operations on agricultural land. This legislation establishes limits on the extent to which local governments would have authority to regulate industrial activity on ports property

with, for example, noise bylaws. At the same time, the legislation would have to carefully balance legitimate local government use of their authority, such as the GVRD's authority for air quality within the region.

Considerable work would be required to develop the details of the legislation and that is beyond the scope of this review. This option only raises the measure in principle.

### Effectiveness in Achieving the Objective

This measure would contribute to the objective by providing port industries with a measure of certainty about their long term ability to operate on port property, reducing one of the risk factor associated with investment.

### Economic Implications

The primary economic implications would be associated with the measure's contribution to achieving the objective.

### Social Implications

There are social implications associated with removing the authority of local governments to respond to concerns of residents. If implemented, this would indicate that, to some extent, the province is putting the overall provincial interest ahead of the interests of local residents. Care would need to taken to ensure that in limiting local authority the result is not a material reduction in health and safety.

### Fiscal Implications

There are no obvious fiscal implications of this measure, except for indirect fiscal benefits to the extent that the measure enables investment and the associated economic activity and government revenue.

### Administrative Feasibility

A similar measure is already in place for agricultural land. Reasonably complex legislation would be required.

### Public Acceptability

This could generate some public outcry from certain residents that may perceive the measure as an infringement on their right to a certain quality of life.

## 13. Establish a Land Use Planning Process for Port Property

### Description

Another option to deal with encroachment issues related to port property may be to establish a strategic, provincial or regional level ports land use planning process. One way might be to include such a plan as part of the GVRD's strategic land use plan. Another would be to establish a separate regional planning process. it should be noted that port authorities already do land use planning and that local governments are required to have Official Community Plans (OCPs). This measure would effectively integrate these processes and ensure that in port communities there is specific land use planning done in respect of tidewater lands and lands used for port purposes.

The idea would be to raise the profile of the ports, their importance at the local, regional, provincial and national levels and provide a framework for consistent local land use planning and regulatory decisions.

### Effectiveness in Achieving the Objective

The effectiveness of this measure in achieving the objective depends on the efforts made by the participants in the process. Like Option 3 – Port Accord on Property Taxation and Land Use, it would be a negotiated agreement on port land use that could resolve several issues related to ports competitiveness but which might result in land use plans which do not remove barriers to investment or provide the required level of certainty. Alternatively, this could form part of Option 3.

### Economic Implications

The economic implications depend on the success of the measure in achieving the objective.

### Social Implications

There are no obvious direct social implications.

### Fiscal Implications

There are no clear fiscal implications. The measure could result in either increased or decreased local government revenue, depending on the results of the process.

### Administrative Feasibility

This measure might require legislation to support it or it may be possible to undertake it within existing legislative frameworks. Strategic land use planning is, in principle, a part of modern local government activity.

### Public Acceptability

It does not seem likely that this measure would generate much public reaction either positive or negative.

## 14. Government Grants

### Description

The province could make grants available to improve port infrastructure and encourage investment by port industries. Since infrastructure grants have traditionally been a federal role, any such contribution would most likely only be in the context of significant federal government contributions as well.

Alternatively, the provincial government could choose to make grants to port terminal operators to encourage investment. Such a program would be an alternative to using provincial tax policy (such as Option 9 – Provincial Investment Tax Credit, Option 10 – Exempt Port Terminals from PST on Machinery and Equipment or Option 11 – Exempt Port Industries from the Corporation Capital Tax) to encourage port investment. Grants may be preferable to the use of tax policy to deliver targeted incentives to a particular industry, since the administrative apparatus that would need to be set up is similar in either case but the grant program does not raise expectations of other taxpayers about the potential for broad tax changes. In this case, the purpose of the provincial tax options would be to provide a general incentive to encourage investment rather than to address a general tax policy issue. In these situations, a grant program may be preferable.

### Effectiveness in Achieving the Objective

Infrastructure grants would reduce the overall burden placed on port authorities and therefore on port industries. As such, they would contribute to the objective by improving service and capacity of the ports, thereby increasing competitiveness.

Grants to terminal operators or other port industries would be a direct incentive to invest and therefore contribute to achieving the objective.

### Economic Implications

Both infrastructure grants and grants to terminal operators have economic implications resulting from the investment they induce and to the extent they help to achieve the objective.

Grants to terminal operators or other private sector firms would clearly be subsidies and therefore would act as market distortions. To the extent that the subsidies were intended to offset other market distortions, there is an argument that they would be justified. The problem, from an economic perspective, is in knowing how much investment there should be and how much subsidy is needed to induce that level of investment. Nothing in this review, or the studies examined in preparing the review provide much insight into these issues. In general terms, the economic benefits would be maximized by directly dealing with the market distortion in question.

#### SOCIAL IMPLICATIONS

There are no obvious direct social implications.

#### FISCAL IMPLICATIONS

The direct fiscal cost for the provincial and federal governments would be the amount of any grants provided. There may be secondary fiscal benefits resulting from economic activity and private sector investment induced by provision of the infrastructure.

#### ADMINISTRATIVE FEASIBILITY

A program design would be required with established criteria and procedures for determining how the grants should be applied. Similar programs have been put in place in a number of different circumstances.

#### PUBLIC ACCEPTABILITY

Public acceptability concerns may arise to the extent that the public perceives any such program as a diversion of funds from other priorities such as health and education expenditures, tax reductions or debt reduction. There could also be calls from other groups for similar programs.

## *15. Seek Federal Changes*

#### DESCRIPTION

Under this option, the province, port stakeholders and possibly local governments would jointly seek federal government measures to improve port competitiveness. This could include:

- changes to the structure of British Columbia port authorities to increase competitive equity;
- reductions in federal revenue taken from port industries, such as the federal stipend paid by port authorities and other fees levied by federal agencies on port operations (e.g. pilotage, Coast Guard, etc.); and
- port infrastructure funding.

#### EFFECTIVENESS IN ACHIEVING THE OBJECTIVE

To the extent that the federal government was willing to make requested changes, they would contribute toward achieving the objective.

#### ECONOMIC IMPLICATIONS

The economic implications would be primarily related to the measure's contribution to achieving the objective.

### Social Implications

There may be social implications if the federal government made changes specifically for British Columbia that gave it an advantage relative to other ports, such as those on the Great Lakes – St. Lawrence, Hudson's Bay and the Maritimes.

### Fiscal Implications

There may be fiscal implications for the federal government of making some of the changes, depending on specifically what changes are sought.

### Administrative Feasibility

There are no administrative issues associated with seeking federal government action. Administrative issues for the federal government would depend on the action taken, if any.

### Public Acceptability

It does not seem likely that this measure would generate much public reaction either positive or negative.

## LOCAL GOVERNMENT CONCERNS

As indicated above, a draft of this report was circulated to all municipalities with port land (including those without a port industry presence) for comment and also to the GVRD. Many of the municipalities responded[41] as well as the Union of BC Municipalities, which was represented on the Port Competitiveness Review Group.

To the extent possible, the comments received from local government representatives and from other interested parties have been taken into account in preparing the final version of the report. There are some common concerns that have emerged from local government comments regarding the process used to support this report and the resulting focus of the document. Since these concerns could not be accommodated in the report within the terms of reference and the direction received from the Ports Competitiveness Review Group, this section has been added to the report in order to present the concerns raised.

The following are quotes taken from some of the responses, which are intended to be representative of the concerns raised:

> There is a strong agreement that the Ports are essential elements of the local, regional, provincial and national economies, and that maintaining ports competitiveness is a shared goal. (George Puil, Chair, GVRD, February 28, 2001)
>
> The City of Langley supports the comments made by the Greater Vancouver Regional District and its member municipalities as to the common goal of improving the competitiveness of ports. However, the City also shares the concerns expressed with ... (the) lack of meaningful municipal participation ... (Marlene Grinnell, Mayor, City of Langley, March 6, 2001)
>
> We are not satisfied with how the review has been conducted, in particular its lack of meaningful municipal participation in framing the issues and objectives, structuring the review, and identifying options. (George Puil, Chair, GVRD, February 28, 2001)
>
> That in response to ... the draft report ... the City state their concern related to the impact on City revenues and weakening of taxation authority; and further that this must be viewed as a provincial and national issue that should not be addressed through local revenue losses. (Ruth Tolerton, City Clerk, City of Port Moody, February 15, 2001)

[41] Including the GVRD, City of North Vancouver, Delta, District of North Vancouver, Kitimat, Langley, Nanaimo and Port Moody.

> Based on a review of the circulated discussion paper and on the related discussions to date, we feel that the Ports Competitiveness review needs to be broadened to include other issues, such as comparative labour costs, the competitive relationship between Canadian ports, and transportation linkages. (Pete Steblin, Chief Administrative Officer, The Corporation of Delta, February 21, 2001)

> While property taxes no doubt impact the port, they also impact other ratepayers as well. Special tax considerations for one sector require either compensating increases to other sectors or an overall loss of revenue, which in turn means reduced services, in part to the ports. Local governments are entrusted to apply property tax policies fairly and equitably and there should be no thought of doing otherwise. (B.A. Hawkshaw, City Clerk, City of North Vancouver, February 28, 2001)

> At question is why the taxpayers of the District of North Vancouver should be burdened with subsidizing a port that benefits the whole country – even while that same port is paying dividends to the Federal coffers. ... While the District acknowledges... that the Major Industry (Class 4) does pay the highest rate, there are in the District's view, clear and defensible reasons ... The assessed value of Major Industry properties (per unit) is about 1/10 of business properties ... (G.M. Howie, Municipal Manager, The District of North Vancouver, February 21, 2001)

> Grants in lieu by the federal government. This was identified by port authorities as an apparently significant issue in early discussion but does not feature prominently in the report. (UBCM Staff)

> The Port of Nanaimo does not pay grants in lieu of taxes to the City of Nanaimo. ... The City of Nanaimo favours full taxation on the same basis as other taxpayers. (Gary Korpan, Mayor, City of Nanaimo, February 27, 2001)

In addition, the District of Kitimat made a point somewhat different from the other local government responses:

> ... we are extremely disappointed in not being consulted and asked to participate in the review. ... you have missed the major element that assures significant competitiveness in the future – *private port capability*. ... We suggest that the Province of BC ... begin a *BC Port Competitiveness Assessment* again, this time with new parameters that expose untold and unknown capacity BC has along its coast – not just federal port locations. (Richard W. Wozney, Mayor, District of Kitimat, February 26, 2001)

## *Observations Regarding Local Government Comments*

In considering the local government comments, the reader is directed to several sections of the report.

Regarding local government participation, see the "Introduction," where the purpose, scope and process are described, as well Appendix A and B, which provide the Terms of Reference and a list of participants. It is noted that the participants were expected to communicate throughout the process with the groups they were representing. Much of the comment received from local governments was the result of representations made by local government representatives on the Review Group about the importance of receiving comment from the broader local government community and the efforts of those representatives to encourage local governments to provide input.

Regarding the focus of the report on property taxes, see "Are BC's Ports Competitive?" which reviews the full range of competitiveness issues affecting British Columbia's ports. In addition, note that of the 15 options identified, only three would directly affect property tax rates with two additional options directed towards property assessment issues. Several of the options include the concept of attempting to influence issues that affect port competitiveness but that are beyond provincial or local government control.

Regarding the specific issues related to property assessment and taxation, see the "Property Taxation" section, which reviews the issues in some depth because of their complexity and relative importance in determining the investment climate within which decisions about needed port investment will be made. The data in that section should help to answer the question of whether, in specific municipalities, ports are subsidizing other taxpayers or other taxpayers would be subsidizing ports if tax rates were reduced. The larger issue is a public policy issue, which is, "What is the appropriate balance between local government autonomy over local taxation and land use and broader provincial and national strategic interests in industries like port industries and other transportation industries which are crucial to the provincial and national economies?"

## CONCLUDING COMMENTS

The following are observations and conclusions that arise from this review:

- In spite of current strong performance, there are legitimate concerns among British Columbia's commercial, multi-purpose ports about their long term competitiveness.
- The primary concern is that significant new capital investment is required but there are significant barriers to investment at the present time.
- There are legitimate concerns about both the competitiveness of BC ports with US west coast ports and competitive equity among firms in port industries in British Columbia.
- Investment currently being made in the US or being planned has raised the level of urgency associated with this issue. In particular, the planned investment at Cherry Point, Washington State with its proximity to the Lower Mainland and access to the same land transportation network as the British Columbia ports means that barriers to investment will likely have real negative impacts on British Columbia port activity.
- There are a number of issues that have been identified as relevant to the ability of British Columbia ports to make needed investments, including the structure and financial arrangements related to port authorities (governance, number of authorities, port fees, the federal stipend (dividend) and payments in lieu of property tax), labour relations, land-side transportation infrastructure, provincial taxation, property assessment and taxation and land use policy.
- The foregoing answers the questions "Are British Columbia ports now competitive and are they likely to be competitive in future?" and "What are the factors of competitiveness?" In accordance with the Terms of Reference and the direction of the Review Group, the remainder of the review focused on several specific issues that are primarily within provincial jurisdiction and that are not currently being addressed in other venues.
- The specific issues for which options have been developed relate to provincial taxation, property assessment and taxation and land use policy.
- Some of these specific issues (i.e. property taxation and land use issues) relate to the conflict between national or provincial interests and local interests – it is difficult at the local level to base decisions upon questions of national economic interests when local residents have other priorities.
- It is recognized that dealing with the specific issues for which options have been identified in this report will only solve part of the problem. Other issues including transportation infrastructure and labour relations have the potential to also have a significant impact on competitiveness. However, the issues upon which the options focus have been demonstrated as legitimate and important factors in the ability of ports and port industries to make the investments they need to remain competitive.

# DISCUSSION PAPER

## OPTIONS TO IMPROVE THE COMPETITIVENESS OF PORTS IN BRITISH COLUMBIA

Volume II – Appendices

**Prepared for: BC Ministry of Employment and Investment**

**Prepared by: Perrin, Thorau & Associates Ltd.**

**March 2001**

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# APPENDIX A – TERMS OF REFERENCE

## INTRODUCTION

British Columbia's major international ports compete with US West Coast ports for a variety of traffic, particularly inbound containers and outbound commodities. The competitiveness of ports is related to their ability to provide inexpensive, efficient and reliable services to shippers and shipping lines. A port that is unable to provide what customers demand risks losing traffic to competing ports. Efficient rail and road transport links, low cost terminal operations and services and high labour productivity all contribute to a port's competitive position.

The provincial government wishes to convene a ports competitiveness review group with representatives from all three levels of government, major port and terminal operators and port workers to assess the competitiveness factors of BC ports, reporting back by December 2000. This decision is based largely on the March 2000 report submitted by the BC Ports Competitiveness Committee, a group representing the major port and terminal operators at Vancouver and Prince Rupert. This report raises a number of issues from the perspective of port and terminal operators but the options for changes and their policy implications need to be assessed.

## TERMS OF REFERENCE

The ports competitiveness review group will receive and review information available on the issues affecting competitiveness. For example, the BC Ports Competitiveness Committee report suggests a number of issues that affect the ability of ports to compete, maintain their financial viability and make needed capital investments. The major issues that have been identified by this group and others include:

- navigational service fees;
- pilotage;
- efficient road and rail access to port facilities;
- rail car allocation;
- port authority stipends;
- port authority payments in lieu of taxes;
- loss of tidewater sites for port use;
- Social Services tax on machinery and equipment;
- local government property taxes and related assessment;
- cost of borrowing funds for capital investments; and
- ensuring continuity of operations.

The BC Ports Competitiveness Report suggests US ports have considerable competitive advantages over Canadian ports, particularly lower costs of borrowing (through revenue bonds) and US ports' authority to levy taxes. The low value of the Canadian dollar currently offsets these US advantages; however, should the Canadian dollar appreciate, cargoes will shift to the US.

The question facing the review group is how material the above factors are in determining competitiveness of the ports. Group members will be asked to submit any other factors they consider relevant to competitiveness. They will select several factors to examine in greater detail in order to determine options for change and the implications of such changes for all stakeholders (e.g., how will these changes affect port and terminal operators' investment intentions?)

**PURPOSE OF GROUP**

- Gain a common understanding of port competitiveness problems.
- Rank the competitiveness issues on their materiality as barriers.
- Develop proposals of the kinds of initiatives that might address the key issues.

**CONCLUSIONS**

Drawing on available reports the review group will determine which factors are critical to competitiveness and can be addressed by industry and government. The impacts of change on governments and stakeholders will also be determined.

**MEMBERSHIP**

| | |
|---|---|
| Local Government | Three nominees from UBCM |
| Port Stakeholders | Three nominees from port and terminal operators<br>One additional member from the Gateway Council |
| Union | The unions to each nominate one representative |
| Federal Government | Transport Canada |
| Provincial Government | Employment and Investment<br>Transportation and Highways<br>Municipal Affairs<br>Finance and Corporate Relations<br>BC Assessment Authority as a resource person |

# APPENDIX B – PARTICIPANTS

Gerry Skura, JRI Terminal
Brad Eshelman, BC Wharf Operators Association (Western Stevedoring)
Toni Nardi, Neptune Bulk Terminals
Bob Wilds, President and CEO BC Maritime Employers Association
Tex Enemark, Consultant to Ports Competitiveness Committee

Rob Fitzgerald, Vancouver Port Authority
Jamie Lamb, Vancouver Port Authority

Ron Burton, Grain Workers' Union
Bill Kerrigan, International Longshore and Warehouse Union Canada

Mayor Don Scott, Prince Rupert
Mayor Helen Sparkes, New Westminster
Richard Taylor, Executive Director, UBCM

John Mills, Transport Canada – Pacific Region

Charles Kang, Ministry of Employment and Investment - Chair
Chris Caple, Ministry of Employment and Investment
Dale Wall, Ministry of Municipal Affairs
Duncan Jillings, Tax Policy, Ministry of Finance and Corporate Relations
Nicholas Vincent, Ministry of Transportation and Highways
David Lee, BC Assessment Authority

Dan Perrin, Perrin, Thorau and Associates Ltd.
Kim Thorau, Perrin, Thorau and Associates Ltd.

# APPENDIX C – PROFILE OF BRITISH COLUMBIA PORTS

## *Port Vancouver*

### SIZE AND ACTIVITY

The Port of Vancouver is a natural deep water harbour. It is the largest port in Canada and on the West Coast of North America.

Port Vancouver covers 276 kilometres of coastline from Roberts Bank at the US-Canadian border through the Burrard Inlet to Indian Arm. Most terminals are centrally located in Vancouver's Burrard Inlet, with the exception of the Deltaport container terminal and Westshore Terminals' coal handling facility, both located at Roberts Bank, 22 kilometres from the city centre. Port lands fall within eight municipalities: the City of Vancouver, City of North Vancouver, District of North Vancouver, City of West Vancouver, Burnaby, Port Moody, Belcarra, and Delta.

### GOVERNANCE:

Vancouver Port Corporation – nine member board of directors.

The Vancouver Port Authority administers 150 km of the coastline included in the port boundaries.

### FACILITIES:

- 30 major cargo and marine related facilities – 19 bulk, three container, two cruise, nine general cargo - 10 of which are corporation owned (see "Detailed Description of Terminals and Facilities")
- Covered storage for general cargo (120,000m)
- Storage for general cargo (700,000m); over 900,000 tonnes of storage capacity for grain
- Nine high-speed container gantry cranes including 6 Post-Panamax cranes

### SERVICES:

Container services
Forest products handling
Grain handling
Cruise ships
Customs
Dry dock repair and service
Tugs and barges
Liquid and dry bulk handling
Roll-on/roll-off
Ship chandling
Bunkering

**MAJOR COMMODITIES:**

Coal, grain, potash, sulphur, general cargo, containers, cruise passengers, forest products, petro-chemicals and petroleum products, metals and minerals.

**COMMERCIAL TRAFFIC:**

All Terminals
1994 – 67,600,000 tonnes; 494,000 TEUs
1999 - 72,000,000 tonnes; 1.07 million TEUs

Five Year Average -
1990 –1994 – 65,800,000 tonnes; 415,000 TEUs
1995 – 1999 – 72,053,000 tonnes; 749,000 TEUs

Vessel Movements
1994 – 2,664 international/7,500 domestic
1999 – 2,836 international/8100 domestic

Export Traffic:
1995 – Total foreign imports/exports – 64,383,000
1999 - Total foreign imports/exports – 67,079,000 million tonnes

**FINANCIAL PROFILE 1999:**

| | |
|---|---|
| Operating Revenues | $67,132,000 |
| Expenditures | $43,454,000 |
| Earnings from Operations | $23,678,000 |
| Net Income (loss) | $16,474,000 |

**INVESTMENT:**

Capital Expenditures –
1995 - $89,500,000
1999 – $66,000,000

**TRANSPORTATION CONNECTIONS:**

Canadian National and Canadian Pacific Railway provide transcontinental service to North American markets. BC Rail and Burlington Northern, a major US railway with links to Mexico, also provide services to the port. There are direct links to the Trans-Canada Highway and the US interstate highway system.

Vancouver International Airport is about 25 minutes from Vancouver's city centre and the port's inner harbour facilities, including its two cruise ship terminals.

## Detailed Description of Terminals and Facilities

### General Cargo

- *Ballantyne* - 2 berths, 212-366 m. long (700-1200 ft.); 5 ha. site (12.5 acres); 18,600 sq. m. covered storage (150,000 sq. ft.); 4,000 sq. m. open storage space (43,000 sq. ft.).
- *Berry Point* -1 berth, 218 m. long (720 ft.); 5.5 ha. site (13.5 acres); 48,560 sq. m. open storage space (522,720 sq. ft.).
- Centerm - 4 berths, 107-183 m. long (351-601 ft.); 21 ha. site (54 acres); 18,580 sq. m. covered storage (200,000 sq. ft.); 204,380 sq. m. open storage space (2.2 million sq. ft.).
- Cerescorp Inc. - 1 berth, 200 m. long (657 ft.);2 ha. site (5 acres); 2,800 sq. m. covered storage (30,000 sq. ft.); 4,046 sq. m. open storage space (43,560 sq. ft).
- Lynnterm - 4 berths, combined length 915 m. (3,000 ft.); 33ha. site (83 acres); 58,200 sq. m. covered storage (626,000 sq. ft.);
- Pier 94 - 2 berths, 40-183 m. long (131-601 ft.); 4.2 ha. site (10.3 acres); 5,000 sq. m. covered storage (53,821 sq. ft.); 36,681 sq. m. open storage space (394,897 sq. ft.).
- Seaboard - 3 berths, 155-384 m. long (509-1,263 ft.); 22 ha. (55 acres) 13,935 sq. m. covered storage (150,000 sq. ft.); 183,087 sq. m. open storage space (1.97 million sq. ft).
- Vancouver Wharves - 2 general cargo berths, 161-239 m. long (529-786 sq. ft.); 8 ha. site (20 acres); 21,000 sq. m. covered storage (220,000 sq. ft.); 76,000 sq. m. open storage space (250,000 sq. ft.).
- Vanterm - 2 general cargo berths, 91-183 m. long (299-601 ft.); 31 ha. site (77.5 acres); 11,613 sq. m. covered storage (125,000 sq. ft.); 22,296 sq. m. open storage space (240,000 sq. ft.).

### Bulk

- *CXY Chemicals* - 2 berths, 76-152 m. long (250-500 ft.);sea salt imports, chlorine, caustic soda and muriatic acid exports.
- *Cascadia* – 1 berth, 274 m. long (900 f); wheat , barley, flax, canola, and durum wheat.
- *Dow Chemical* - 1 berth, 200 m. long (657 ft.); caustic soda solution, ethylene dichloride, ethylene glycol.
- Fibreco - 1 berth, 137 m. long (450 ft.); bulk woodchips.
- *IOCO* - 1 berth, 165 m. long (542 ft.); petroleum products.
- *James Richardson International* – 1 berth, 180 m. long (592 ft); wheat, canola, barely, rye, flax and grain by-products.

- *Neptune Bulk Terminal s-* 3 berths, 229-280 m. long (753-921 ft.); coal, potash, feed pellets, chemical fertilizers, canola oil and phosphate rock.
- *Pacific Coast Terminals* - 2 berths, 165-217 m. long (542-713 ft.);sulphur, ethylene glycol, styrene monomer.
- *Pacific Elevators* - 2 berths, 134-244 m. long (440-802 ft.); wheat, barley, canola and rye.
- *Petro Canada* - 2 berths, 40-90 m. long (131-296 ft.);petroleum products.
- *Rogers Sugar* - 1 berth, 144 m. long (473 ft.); bulk sugar imports.
- *Saskatchewan Wheat Pool* - 2 berths, combined length 460 m. (1,513 ft.); wheat, durum wheat, canola, barley and grain by-products.
- *Shellburn* - 2 berths, combined length 216 m. (710 ft.); petroleum products, styrene monomer.
- *Trans Mountain Pipeline* -1 berth, 91 m. long (300 ft); crude petroleum, petroleum products, jet fuel.
- *United Grain Growers* - 2 berths, combined length 426 m. (1,401 ft.); grain and grain products.
- *Vancouver Wharves* - 4 berths, 161-239 m. long (529-786 ft.); copper and lead-zinc concentrates, inbound and outbound liquid methanol, sulphur, potash, and fertilizers.
- *Westshore Terminals* - 2 berths, 185-244 m. long (608-802 ft.); coal and coke.
- *West Coast Reduction* - 2 berths, 183-286 m. long (610-953 ft.); tallow, canola oil, fish oil and bulk vegetable oils.

**Container**

- *Deltaport* - 40-hectare site (100 acres); 2 berths, 15.8 m. deep (52 ft.); 670 m. long (2,198 ft.). [The Deltaport Partnership is a demonstration of commitment to the intermodal business. This Partnership, unique in North America, brings together the Vancouver Port Authority and TSI Terminal Systems Inc. with North America's only two transcontinental railways, Canadian National and Canadian Pacific Railway.]
- *Centerm* - 21-hectare site (54 acres); 2 container berths, 12.2 to 15.5 m. deep (40 ft. to 51 ft.); 644 m. long (2,113 ft.).
- *Vanterm* - 31-hectare site (76 acres); 3 container berths, 15.2 to 15.5 m. deep (50 ft. to 51 ft.); 793 m. long (2,600 ft.).

**Cruise**

- *Canada Place* - Berths: 3
  Lengths: 314 m. (1,030 ft.); 326 m. (1,070 ft.); 135 m. (443 ft.)

- *Ballantyne Pier* - Berths: 2
  Lengths: 213 m. (700 ft.); 366 m. (1200 ft.)

## *Fraser Port*

**SIZE AND DESCRIPTION:**

The harbour extends along 227 kilometres of shoreline on the Fraser River in British Columbia from the Strait of Georgia to Langley. The port falls within nine municipalities (Delta, Richmond, New Westminster, Coquitlam, Port Coquitlam, Surrey, Pitt Meadows, Maple Ridge and Langley).

The Port's major facilities are located at one of three properties:

- Fraser Surrey includes the Port's main general cargo terminal, Fraser Surrey Docks, and many port related businesses
- Fraser Annacis includes one of two auto terminals on Canada's west coast
- Fraser Richmond is the Port's future development site for marine oriented industry.

More than 25 million tonnes of cargo, valued at $9.0 billion pass through Fraser Port annually. Over 350 businesses and industries depend on the port for their livelihood. It is estimated that, in 1997, port operations added $1.4 billion to Canada's GDP and sustained 24,035 direct and indirect jobs, 6,185 of which are in British Columbia.

**GOVERNANCE:**

Port Authority – seven member board of directors

**FACILITIES:**

- Fraser Surrey Docks - 6 berths dedicated to deep-sea vessels; barge unloading ramp; covered storage (three pulp and paper storage sheds with covered rail and three general cargo warehouses.
- Annacis Auto Terminals – two deep-draft berths; five rail loading ramps; 39 truck loading bays; storage for up to 25,000 vehicles at one time.
- Fraser Richmond - new development plans for this 281 hectare site include mixed port terminal/industrial park use.
- Fraser Delta – future development site for warehouse facilities and marine-related industry.

The above facilities are operated for the Fraser River Port Authority by independent firms.

Other privately owned and operated facilities include: Seaspan Coastal Marine (provides truck and rail ferry service to Vancouver Island); Con-Force Structures (manufactures and ships pre-cast construction elements); LaFarge Canada (produces and ships construction materials and cement); Tilbury Cement (operates a cement production facility and terminal); Westminster Terminals (transloads steel and forest products cargo).

**SERVICES:**

Roll-on/roll-off ramp
Automobile preparation
Distribution services
Bunkering
Stevedoring
Marinas and barge moorage (electricity and fresh water)
Customs
Float homes and parks
Boat-building
Mills, log sorting and booming
Aggregate production

**MAJOR COMMODITIES:**

Automobiles, aggregate, pulp, paper, lumber, wood products, steel, general cargo

**TRAFFIC AND COMMODITY PROFILE:**

All Facilities
1995 – 23.05 million tonnes
1999 – 25.60 million tonnes

Five Year Average:
1990 –1994 – 21,636,658 tonnes
1995 – 1999 – 23,848,490 tonnes

Export Traffic:
1995 – 1.694 million tonnes; 24,624 TEUs
1999 – 1.132 million tonnes; 31,921 TEUs

Vessel Movements:
1995 – 385 ship arrivals
1999 – 564 ship arrivals

**FINANCIAL PROFILE 1999:**

| | |
|---|---|
| Operating Revenues | $15,181,780 |
| Expenditures | $14,073,391 |
| Earnings from Operations | $1,108,389 |
| Net Income (loss) | $805,508 |

**INVESTMENT:**

Fraser Port (and formerly the Fraser River Harbour Commission) invested over $30 million in terminal and infrastructure improvements from 1994 to 1998.

TRANSPORTATION CONNECTIONS:

Access to a total of five Canadian and U.S. railways
Access to three airports
Access to international highway routes and highways

## *Port North Fraser*

**SIZE AND DESCRIPTION:**

The Port North Fraser is comprised of 18 miles of shallow draft, tidal influenced waterway (36 miles of foreshore) contiguous to the main arm of the Fraser River, adjacent to the Vancouver International Airport and within the municipalities of Vancouver, Richmond, Burnaby and New Westminster. The port is bounded by the Strait of Georgia to the west, at the jurisdictional boundary of the Port of Vancouver, and to the east, by the jurisdictional boundary of Fraser Port.

The Port North Fraser accommodates tug and barge operators and coastal ships servicing regional cargoes to and from British Columbia's coastal communities. The port often referred to as the "Working River", handles industrial traffic such as fish for processing, log transportation, storage and associated wood processing and aggregate storage and processing.

**GOVERNANCE:**

Canadian Port Authority – seven member board of directors appointed as follows:

- The Governor-in-Council appoints one individual nominated by the Minister.
- The municipalities of Richmond, Burnaby, and Vancouver appoint one individual
- The Province of British Columbia appoints one individual
- The Governor-in-Council appoints the four remaining individuals nominated by the Minister, in consultation with the Port Nominating Committee.

**FACILITIES:**

- Point Grey No. 2 - 14 berth facility for barges.
- Sea Island - 4 berth facility for barges.
- North Arm Jetty - 75 acres temporary log storage.

**SERVICES:**

Port Services: specialized facilities for transportation and storage of round-wood fibre
Other Available Services: minor repairs; bunkering; towing; provisions and fresh water.

**TRAFFIC AND COMMODITY PROFILE:**

Major commodities include round-wood fibre, aggregate, finished lumber, wood by-products, iron and steel.

All Facilities
1994 – 15,255,101 tonnes
1999 – 17,661,565 tonnes

**FINANCIAL PROFILE 1999**

| | |
|---|---|
| Operating Revenues | $4,436,107 |
| Expenditures | $4,277,399 |
| Earnings from Operations | $124,398 |
| Net Income (loss) | $158,708 |

**INVESTMENT:**

Capital Expenditures –
1999 – $975,810

**TRANSPORTATION CONNECTIONS:**

Intermodal facilities include: Vancouver International Airport; CN and CP Rail; Highways 91 and 99.

## *Port of Nanaimo*

**SIZE AND DESCRIPTION:**

Nanaimo is the major commercial port on Vancouver Island. The port is located on the east coast of the Island, 36 nautical miles west of Vancouver.

**GOVERNANCE:**

Nanaimo Port Authority – seven member board of directors

**FACILITIES:**

- Six deep sea berths
- Three warehouses
- Four private wharves
- Seaplane terminal - float and moorage (approximately 12 planes)
- Commercial/retail facility
- Commercial moorage
- Two barge ramps
- Two terminals
- Floating visiting vessel pier facility for large pleasure craft and cruise ships
- 40 tonne container handling crane

**SERVICES:**

Handling, storage and export of forest products
Roll-on/roll-off coastal
Container handling
Mobile cranes
Stevedoring
Bunkering
Vessel repairs
Ship chandling
Provisions
Customs
Ferry services – commercial and passenger

**COMMERCIAL TRAFFIC:**

All Terminals
1994 – 1,346,051 tonnes
1999 – 2,208,395
Five Year Average
1990 –1994 – 1,374,023 tonnes
1995 – 1999 – 2,056,056 (no tracking of domestic cargo prior o 1996)

Vessel Movements
1994 – 183 international/147 domestic
1999 – 139 international/

Export Traffic (1999)
683,925 tonnes of forest products, primarily lumber and pulp

**MAJOR COMMODITIES:**

Lumber, newsprint, pulp, petroleum products, kaolin

**FINANCIAL PROFILE 1999:**

| | |
|---|---|
| Operating Revenues | 6,142,000 |
| Expenditures | 4,256,000 |
| Earnings from Operations | 1,886,000 |
| Net Income (loss) | 280,000 |

**INVESTMENT:**

Capital Expenditures –
1994 - $2,917,145
1999 – $254,000

**TRANSPORTATION CONNECTIONS:**

Road Access – links to Trans Canada Highway
Rail Access – Canadian Pacific Rail System

## *Port of Prince Rupert*

**SIZE AND DESCRIPTION:**

The Port of Prince Rupert is located about 700 kilometers North of Vancouver near the mouth of the Skeena River on the Northwest Coast of British Columbia. It is the third largest ice-free natural harbour in the world providing direct access to North Pacific shipping lanes and is closer to Asian markets by 30 hours sailing time.

About thirty percent of the volume of exports from the Port of Prince Rupert is grain. However, there is significant underutilization of the port for grain shipments - between 1996 and 1998 Prince Rupert Grain was closed about one-third of the time (13 months out of 39 months). In addition, the market for coal has been depressed and it is estimated that though the port can handle 17 mmt of coal per year only about 2 mmt moves through the port annually.

**GOVERNANCE:**

Prince Rupert Port Authority - seven member board of directors.

**FACILITIES:**

Its terminals range from bulk and break-bulk, through to cruise ship facilities. All are modern, most have opened within the last 15 years, and all have been recently upgraded and expanded. There is also more than 400 hectares of waterfront land offering industrial development opportunities.

The Port of Prince Rupert currently consists of six terminals:

- Fairview Terminal - a 21.5 hectare break-bulk cargo facility in including four covered storage sheds and a new portable ship loader for handling specialty agricultural products;
- Ridley Terminals Inc. – a bulk facility for coal, handling vessels up to 250,000 DWT;
- Prince Rupert Grain - eight shipping bins and three tower-mounted loading spouts (can load up to 4,000 tonnes of wheat or barley an hour and state-of-the-art engineering and technology allow grain to be cleaned as fast as it is unloaded). Prince Rupert Grain is owned by the five major grain companies (Agicore, Cargill, Richardson, Saskatchewan Wheat Pool and United Grain Growers).
- Westview Terminal - a 309 meter wooden dock with a water depth of 12.2 m. It is currently leased to fishing operations on a seasonal basis. This prime development property includes six hectares for development.
- Sulphur Corporation of Canada is finalizing plans to build a sulphur export terminal on Ridley Island. The new terminal will utilize existing berthing facilities and high-speed ship loaders at Ridley Terminal Inc.'s coal terminal for vessel loading. Phase I is designed to handle 500,000 tonnes per year with the potential for expansion to more than one million tonnes annually;

- Atlin Cruise Terminal - the first phase of development of the terminal completed in the summer of 1998, includes floating docks suitable for small cruise vessels. The facilities are intended to serve both the Alaska cruise market and the developing intra-British Columbia coastal cruise trade. Phase II, targeted for completion in the summer of 2001 will focus on the redevelopment of the former Atlin fish plant building for commercial and tourism use. A cruise ship dock development plan is currently being formulated in cooperation with the city to accommodate the large ships presently cruising to Alaska. The development site is adjacent to the Atlin Terminal, on the Prince Rupert waterfront.

**SERVICES:**

Roll-on/roll-off ramp
Dry bulk
Container services
Ship chandling
Tugs and barges
Bunkering
Fresh water and electricity
Rail link
Lift trucks
Ship survey and inspection
Pilotage

**TRAFFIC AND COMMODITY PROFILE:**

The Port of Prince Rupert has dedicated grain, coal, forest products, specialty grain, cruise passenger and general cargo handling facilities.

There are usually about 1,600 vessels calling in the port each year, of which about 40 percent are engaged in foreign trading. Total traffic in 1998 was more than 13 million tonnes.

**FINANCIAL PROFILE 1999:**

| | |
|---|---|
| Operating Revenues | $6,382,760 |
| Expenditures | $5,976,334 |
| Earnings from Operations | $404,426 |
| Net Income (loss) | $1,219,286 |

**INVESTMENT:**

Capital Expenditures –
1999 – N.A.

**TRANSPORTATION CONNECTIONS:**

The Port of Prince Rupert is accessible to the entire continent by all-weather road and rail connections. It is the western terminus for CN Rail which is the only rail line to service the port. The rail line is well built, well maintained, has the lowest grade of any line going to the West Coast but operates well below capacity (it is estimated that unused rail capacity is between 70 and 80 percent).

## *Port Alberni*

**SIZE AND DESCRIPTION:**

Port Alberni is situated on the West Coast of Vancouver Island at the head of the Alberni Inlet, 58 kilometres from the Pacific Ocean -- a fine, all-year-round, ice-free port where vessels can be accommodated at all stages of tide.

**GOVERNANCE:**

Port Alberni Port Authority: seven member board of directors.

**FACILITIES:**

The port offers three deep-sea berths which can accommodate up to "Panamax" size vessels and are owned and operated by the Port Alberni Port Authority.

**SERVICES:**

Cranes
Bunkering
Ship chandling
Minor repairs
Tugs
Fresh water and electricity
Stevedoring
Ships' agents

**TRAFFIC & COMMODITY PROFILE:**

Annually, some 35 foreign freighters and 30 deep-sea barges arrive in port to load forest products. Approximately 300,000 metric tonnes are exported and up to 200,000 metric tonnes of logs are loaded out for other British Columbia ports.

**FINANCIAL PROFILE 1999:**

| | |
|---|---|
| Operating Revenues | $3,507,565 |
| Expenditures | $3,165,511 |
| Earnings from Operations | - |
| Net Income (loss) | $342,054 |

**INVESTMENT:**

Capital Expenditures –
1995 $1,615,475
1999 – $132,884
Five year average - $1,083,600

TRANSPORTATION CONNECTIONS:

Available rail access

## *Port of Squamish*

**SIZE AND DESCRIPTION:**

Squamish is located at the head of the Howe Sound, 50 kilometers north of Vancouver. The harbour is large with deepwater access, good navigational aids, fog and ice free.

**GOVERNANCE:**

Designated as a regional/local harbour under the National Marine Policy. One harbour master is employed by Transport Canada [Task Force has been formed to consider feasibility of becoming port authority.}

**FACILITIES:**

No facilities owned by Transport Canada.

Two private terminals –

- Squamish Terminals Ltd.- two berths, warehouses, and storage; the terminal is specially designed for the handling of forest products, particularly woodpulp.
- Woodfibre Pulp Mill - two berths, warehouses and storage; a private terminal serving the Western Pulp Squamish Operation

**SERVICES:**

Bunkering
Fresh water
Provisions (limited)
Tugs

**TRAFFIC AND COMMODITY PROFILE:**

Forest products, primarily woodpulp.

- Squamish Terminals – 1999 handled about 700,000 tonnes of cargo
- Woodfibre Pulpmill – 1999 handled about 250,000 tonnes; 70 ships

**FINANCIAL PROFILE 1999:**

Not available.

**INVESTMENT:**

Not available.

**TRANSPORTATION CONNECTIONS:**

Connected by Highway 99 to Vancouver.
BC Rail provides direct access from the Province's interior to the port as well as linking it with transcontinental railways at Vancouver.

## *Port of Kitimat*

**SIZE AND DESCRIPTION:**

Kitimat lies on the north coast of British Columbia about 650 kilometres by air northwest of Vancouver and 110 kilometres southeast of Prince Rupert. Access to the harbour is via wide safe fjords. Kitimat Arm provides a natural, ice-free deep water harbour.

The Port of Kitimat is a collective of privately owned and privately operated waterfront facilities associated with "large-scale, value-added manufacturing". Kitimat is the fourth busiest port in British Columbia.

Manufactured goods valued at $1.13 billion were shipped by Kitimat's three largest terminals in 1997. This represents 12 percent of British Columbia's manufacturing gross domestic product.

**GOVERNANCE:**

Privately owned and operated port facilities.

**FACILITIES:**

- Alcan Terminals – two berths and storage facilities; imports bulk alumina, pitch, coke and flouride, exports aluminum ingots.
- Eurocan Terminals – two berths and warehouse; commodities – linerboard and sackkraft paper, lumber and woodchips in bulk.
- Methanex Terminal – one berth; methanol, MTBE, anhydrous ammonia.
- Future development – 21 sites in Kitimat Valley; 11 on tidewater (ranging from 3,300 ha o 100 ha); mixture of privately owned and publicly owned lands.

**SERVICES (AVAILABLE LOCALLY UPON REQUEST)**

Bunkering
Fresh water and provisions
Launching ramp
Hull and engine repairs
Customs

**TRAFFIC AND COMMODITY PROFILE:**

Over the past ten years traffic at Kitimat has exceeded 250 deepsea vessels and over 2 million tonnes of cargo per annum.

**FINANCIAL PROFILE 1999:**

Not available.

**INVESTMENT:**

Not available.

**TRANSPORTATION CONNECTIONS:**

Kitimat is 60 kilometres south of the Yellowhead Highway and is "Mile O" of Highway 37 which links the province to the Yukon and Alaska. CN Rail provides a daily freight service between Kitimat and the main line through Terrace.

# APPENDIX D – REAL PROPERTY ASSESSMENT AND TAXATION IN BRITISH COLUMBIA[1]

## *The Property Assessment & Taxation Process*

Property assessment and taxation in B.C. is a two-step process involving BC Assessment and the various tax authorities:

- BC Assessment[2] is responsible for assessing property (its value and classification). After the value and correct classification of every property is determined, BC Assessment provides the taxing authorities with an Assessment Roll which lists all properties and their taxable values as well as the names of property owners. BC Assessment does not set taxes.
- Tax authorities (provincial and municipal governments) then apply their tax rates to assessments to determine the distribution of property taxes in each class (i.e., how the tax burden will be shared among all property owners). Tax revenues are used to provide transportation, schools, health services, recreational facilities, police and fire protection, water, sewer systems and garbage disposal

## *Assessment*

The *Assessment Act* requires that most property be assessed at market value - considered the fairest way to assess property. Exceptions include utility properties such as railways, pipelines, power lines, and farm land. These properties are valued at regulated rates.

### WHAT IS MARKET VALUE?

In general terms, market value is the price expected if a reasonable amount of time is allowed to find a purchaser and if both seller and prospective buyer are fully informed. For assessment purposes in British Columbia, market value is the most probable price that an unencumbered property would sell for on the open market effective July 1 of each year.

### HOW IS MARKET VALUE DETERMINED?

Market value is determined by following generally accepted appraisal principles. Each year the assessor takes into account location, size, topography, shape, replacement cost, age, condition, rental income, sales of comparable properties in the area, and any other factors that might affect the property's value.

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[1] Source: BC Assessment website- http://bcassessment.gov.bc.ca.

[2] BC Assessment was established in 1974 to replace municipal and provincial government assessment offices. It was created under the Assessment Authority Act to operate as an independent, publicly funded corporation to produce and maintain uniform property assessments throughout B.C.

There are three fundamental approaches to value which both private and public appraisers use to develop market value estimates. A summary of each approach follows.

**Direct Comparison Approach**
The Direct Comparison Approach to value is based on the assumption than an informed purchaser would pay no more for a given property than the cost of acquiring a comparable property.

Therefore, the sale price of comparable properties are first adjusted to reflect value trends in the market. For example, if the sale of a comparable property took place on May 1 and the valuation date for the subject property is July 1, BC Assessment would adjust the sale price. The adjustment is based on market movement occurring between May 1 and July 1.

Since no two properties are exactly alike (either in terms of location or physical characteristics), adjustments to the sale price of each comparable property are required to account for their differences.

Once the sale price of a comparable property is adjusted, the reconstructed value reflects the "probable selling price" of the property being appraised.

This process is repeated for all comparable sales and produces a range of values against which the subject property can be compared.

Using the Direct Comparison Approach to value is most appropriate when the market is active and many properties with similar characteristics are selling.

**Cost Approach**
The Cost Approach to value is based on the assumption that an informed purchaser would pay no more for a property (land and buildings) than it would cost to buy a similar piece of land on which a building is constructed with characteristics comparable to the property to be purchased.

The appraiser estimates the land value only, and then adds to this value the cost of replacing the building(s) and other improvements.

Value of Land + Cost of Improvements (i.e., Building) - Depreciation = Total Value of Property

When applying this approach to value, costs must be adjusted to the valuation date, reflect market values in the property's geographic location, and include all indirect costs (such as the developer or owner's profits and the cost of financing during construction).

Once the costs of constructing the subject building have been determined, the appraiser estimates a deduction for:

- Physical Depreciation - loss in value due to normal wear.
- Functional Depreciation - loss in value due to the structure's inability to function effectively.
- Economic Depreciation - loss in value due to location.

The Cost Approach is used most often when the property under review is new or nearly new, there are no comparable sales, or the improvements are relatively unique or specialized.

**Income Approach**
The Income Approach to value is based on the assumption that the value of a property is directly related to the income it will generate over its economic lifetime. When applying this approach, net operating income is estimated:

Potential Gross Income - Vacancy/Bad Debt = Effective Gross Income - Operating Expenses = Net Operating Income

The appraiser determines the potential gross rental income the property could produce by analyzing rents paid for the subject property, as well as those paid for comparable properties located in the same geographic area. An allowance is then made for vacancy and collection loss (which varies depending on the type and location of property).

From effective gross income, operating expenses are deducted which determines the annual net operating income.

Note: No deduction is allowed for mortgage interest because different owners have different mortgage requirements. Completing the calculation as though there are no debt service charges, puts all such owners on the same footing and is an important principle in assessment law.

Based on expectations a typical investor would have for the property, the annual net income is converted to a capital value using a market-derived capitalization rate:

Value = Net Operating Income / Capitalization Rate

The appraiser analyzes sales that occurred in the market place to determine what rate of return investors are seeking for the various types of properties. The capitalization rate increases proportionately with any risk.

The Income Approach is widely applied when appraising income producing properties.

## *Classification of Property in B.C.*

As part of the assessment process, BC Assessment classifies property into one of nine classes.

Classification is based on a property's use and whether it meets the requirements for the class as specified by government regulation.

**THE NINE PROPERTY CLASSES**

There are nine classes of property in British Columbia.

*Class 1, Residential* – includes single-family residences, multi-family residences, duplexes, apartments, condominiums, nursing homes, seasonal dwellings, manufactured homes, recreational property, some vacant land, farm buildings and daycare facilities.

*Class 2, Utilities* -- includes structures and land of railways, pipelines, telegraph/telephone systems, electrical systems and closed circuit TV systems, but does not include offices or sales outlets.

*Class 3, Unmanaged Forest Land* -- includes forest land that is not managed in accordance with an acceptable forest management commitment. This land may be in or out of the Forest Land Reserve. Land outside of the Forest Land Reserve in this class must have as its highest and best use, the growing and harvesting of trees.

*Class 4, Major Industry* -- includes land and improvements (buildings) of Major Industry properties. Improvements such as lumber mills and pulp mills are generally used for heavy manufacturing, mining, smelting, ship building and loading terminals.

*Class 5, Light Industry* -- property used or held for extracting, manufacturing or transporting products, including ancillary storage. A scrap metal yard, winery or boat building operation all fall within this category. Exceptions include properties used for the production of food and nonalcoholic beverages, which fall into Class 6.

*Class 6, Business Other* -- includes properties which do not fall into the other classes. Property used for offices, retail, warehousing, hotels and motels all fall within this category.

*Class 7, Managed Forest Land* -- privately-owned forest land property for which an acceptable forest management commitment has been made to the Land Reserve Commission. To be eligible, owners must also have their land designated as Forest Land Reserve, if not already in the Agricultural Land Reserve. Property owners have an obligation to provide good resource management practices, such as reforestation, care of young trees, protection from fire and disease and sound harvesting methods. (Managed Forest Land is taxed at a lower rate than Unmanaged Forest Land.) For more information on managed forest land, consult the Fact Sheet titled: Assessing Private Land with Trees or go to the land Reserve Commission's website at http://www.landcommission.gov.bc.ca/lrc/lrchome/lrchome.htm

*Class 8, Recreational Property Non-profit Organization* -- covers two very different categories:

- land used solely as an outdoor recreational facility for such activities as golf, skiing, tennis, public swimming pools, waterslides, amusement parks, marinas and hang gliding. Improvements on the land (such as a clubhouse) fall in Class 6.

- property used for at least 150 days per year by a non-profit organization for a meeting hall or place of public worship. (The 150 days cannot include activities with paid admission or the sale/consumption of alcohol).

*Class 9, Farm Land* -- Farm land must produce primary agricultural products for sale such as a crop or livestock. (For more information on farm land, consult the Fact Sheet titled: Classifying Farm Land).

*Split Classification*

It is possible for a property with several distinct uses to fall into more than one class.

For example, commercial and residential space might be combined in one building. A property may also be a combination of residential, farm and forest land.

In these cases, BC Assessment determines the share of the value of the property attributable to each class.

## *Why Do Assessments Increase or Decrease?*

Changes in assessment reflect changes in market value. Some of the reasons market value can change are:

- a property may have improved (e.g., a renovation or addition).
- demand for property in the neighborhood may have caused prices and market values to rise or fall.
- a change in zoning may have changed the value of the land.

The market value of property is recorded on the annual Assessment Roll.

## *How Can Similar Properties Have Different Values?*

Similar properties may have different values because:

- the properties may be located in different neighborhoods.
- the zoning for each property may be different.
- an adjoining use may affect one property and not the other (e.g., one property is located next to an industrial plant).

## *Why Do Property Taxes Go Up?*

Property taxes can increase for three reasons:

- tax authorities need to raise revenue to provide services.
- values may increases in relation to other properties in the taxing jurisdiction.
- a change (i.e., addition, new garage) increases property values.

## *Assessment and Taxation of Port Property*

Port waterfront industries (industries engaged in loading cargo onto sea going ships or barges, and associated cargo storage and loading facilities, including grain elevators) are included in Class 4, Major Industry. Under Class 4, land and buildings valued separately - Land is valued at market value whereas "improvements" are valued at replacement cost and then depreciated according to a prescribed rate. Detailed manuals establish the rates, formulas, rules and principles for the calculation of the "cost of industrial improvement". Following is a copy of section 20 of the *Assessment Act* that sets out the rules for "Major Industry Valuation".

Privately owned waterfront businesses that come within the definitions in section 20 of the *Assessment Act* and businesses that lease land from a Canadian Port Authority pay property taxes in accordance with the valuation and rate applied to Class 4, Major Industry. As a federal agency, a port authority is not required to pay provincial or local property taxes. However, federal legislation provides that a port authority may make a "payment in lieu" of taxes to a municipality. If a port authority makes this payment it must be made in accordance with the rules that apply generally – i.e., the payment would equal the tax paid by a taxable property owner or lessee, with some relatively minor adjustments.

## *Assessment Act - Major Industry Valuation*

20 (1) In this section:

"cost of industrial improvement" means the cost of replacing an existing industrial improvement with an improvement that

(a) has the same area and volume as the existing industrial improvement,

(b) serves the same function that the existing industrial improvement was designed for or, if the existing industrial improvement is no longer used for that function, serves the same function that the existing industrial improvement now serves, and

(c) is constructed using current, generally accepted construction techniques and materials for the type of improvement being constructed;

"industrial improvement", subject to subsection (2), means an improvement that is part of a plant, whether or not the plant can be operated as a going concern or is temporarily or permanently unprofitable, if the plant is designed and built for the purpose of one or more of the following:

(a) mining, extracting, beneficiating or milling of metallic or non-metallic ore;

(b) mining, breaking, washing, grading or beneficiating of coal;

(c) producing of aluminum;

d) smelting or refining of metal from ore or ore concentrate;

(e) producing, manufacturing, processing or refining of petroleum or natural gas;

(f) manufacturing of lumber or other sawmill and planing mill products;

(g) manufacturing of wood veneer, plywood, particle board, wafer board, hardboard and similar products;

(h) manufacturing of gypsum board;

(i) manufacturing of pulp, paper or linerboard;

(j) manufacturing of chemicals;

(k) manufacturing of chemical fertilizer;

(l) manufacturing of synthetic resins or the compounding of synthetic resins into moulding compounds;

(m) manufacturing of cement;

(n) manufacturing of insulation;

(o) manufacturing sheet glass or glass bottles;

(p) building, refitting or repairing ships;

(q) loading cargo onto sea going ships or barges, and associated cargo storage and loading facilities, including grain elevators.

(2) The Lieutenant Governor in Council may exempt from the definition of "industrial improvement" improvements in a plant or class of plant that has less than a prescribed capacity and may prescribe different capacities for different types of plants.

(3) Despite section 19, there is continued a class of properties consisting of

(a) land used in conjunction with the operation of industrial improvements, and

(b) industrial improvements.

(4) The actual value of properties to which this section applies is

(a) the actual value of the land as determined under section 19, and

(b) the cost of industrial improvements less depreciation that is at a rate and applied in a manner prescribed by the Lieutenant Governor in Council, and the Lieutenant Governor in Council may prescribe different rates and different manners of application of depreciation for individual properties or classes or types of properties.

(5) For the purposes of determining cost for the purposes of the definition of "cost of industrial improvement" in subsection (1), the Lieutenant Governor in Council may prescribe manuals establishing rates, formulas, rules or principles for the calculation of cost.

## *Property Taxation and Assessment Data*

**Table D1 – 2000 Municipal Tax Rates for Municipalities with Ports Property**

| Municipality | Municipal Property Tax Rates* 2000 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Burnaby | 3.80 | 32.06 | - | 44.55 | 12.88 | 12.82 | - | 2.35 | 9.30 |
| City of North Vancouver | 3.45 | 40.00 | - | 39.03 | 20.85 | 10.93 | - | 4.39 | - |
| Coquitlam | 4.10 | 42.93 | 16.42 | 46.14 | 18.97 | 15.57 | 12.32 | 6.79 | 11.16 |
| Delta | 4.75 | 34.87 | - | 24.72 | 14.41 | 12.44 | - | 3.88 | 10.77 |
| District of North Vancouver | 3.49 | 40.29 | - | 40.23 | 22.76 | 10.55 | - | 5.89 | - |
| Kitimat | 4.71 | 30.70 | 18.82 | 47.86 | 22.34 | 12.11 | 14.12 | 10.65 | 107.31 |
| Langley | 4.07 | 32.99 | - | 12.94 | 14.13 | 11.43 | - | 3.37 | 6.82 |
| Maple Ridge | 4.70 | 40.00 | - | 42.83 | 13.39 | 12.00 | - | 9.30 | 13.85 |
| Nanaimo | 7.98 | 43.63 | - | 34.56 | 17.28 | 17.45 | 6.33 | 13.46 | 0.50 |
| New Westminster | 5.89 | 44.42 | 10.00 | 31.01 | 31.03 | 17.77 | 10.00 | 5.90 | 5.90 |
| Pitt Meadows | 4.50 | 41.70 | - | 30.04 | 19.78 | 12.68 | - | 4.00 | 18.24 |
| Port Alberni | 8.90 | 67.85 | 35.62 | 72.92 | 37.93 | 28.14 | 26.71 | 8.90 | 8.90 |
| Port Coquitlam | 5.16 | 42.72 | 42.72 | 21.67 | 21.67 | 13.96 | 42.72 | 9.03 | 15.48 |
| Port Moody | 4.58 | 40.00 | - | 41.68 | 26.18 | 12.44 | - | 7.81 | - |
| Prince Rupert | 9.16 | 69.64 | 0.00 | 33.89 | 31.34 | 31.34 | - | 6.75 | - |
| Richmond | 3.55 | 40.00 | - | 9.61 | 12.54 | 9.93 | - | 1.24 | 6.61 |
| Squamish | 5.26 | 38.72 | 90.29 | 50.04 | 21.56 | 13.15 | 9.03 | 6.09 | 66.19 |
| Surrey | 3.67 | 35.46 | - | 14.88 | 9.52 | 9.52 | - | 3.68 | 3.68 |
| Vancouver | 2.99 | 29.92 | - | 30.54 | 14.94 | 14.87 | - | 3.11 | 3.11 |
| West Vancouver | 3.67 | 16.11 | - | 10.38 | 10.38 | 6.44 | - | 5.12 | - |

Notes to Table D1:

- Port of Vancouver property falls within seven municipalities – City of Vancouver, City of North Vancouver, District of North Vancouver, West Vancouver, Burnaby, Port Moody and Delta
- Fraser River Port property falls under nine municipalities – Delta, Richmond, New Westminster, Coquitlam, Port Coquitlam, Surrey, Pitt Meadows, Maple Ridge, District of Langley
- Port North Fraser property falls under four municipalities – City of Vancouver, Burnaby, Richmond and New Westminster
- Port Alberni falls solely within the jurisdiction of the City of Port Alberni
- Port of Prince Rupert property falls solely within the boundaries of the City of Prince Rupert
- Port of Nanaimo property falls within the City of Nanaimo
- The port facilities at Squamish and Kitimat come within the respective municipalities

**Table D2 –Residential and Major Industry Property Tax Rates and Ratios**

| Municipality | 1988 | | | 1995 | | | 2000 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Res | Maj Ind | Mj Res | Res | Maj Ind | Mj Res | Res | Maj Ind | Mj Res |
| Burnaby | 6.60 | 19.80 | 3.0 | 2.96 | 29.92 | 10.1 | 3.80 | 44.55 | 11.7 |
| City of North Vancouver | 6.10 | 14.36 | 2.4 | 2.96 | 28.79 | 9.7 | 3.45 | 39.03 | 11.3 |
| Coquitlam | 6.05 | 21.28 | 3.5 | 2.94 | 31.73 | 10.8 | 4.10 | 46.14 | 11.3 |
| Delta | 7.06 | 14.11 | 2.0 | 3.59 | 15.72 | 4.4 | 4.75 | 24.72 | 5.2 |
| District of North Vancouver | 6.29 | 16.18 | 2.6 | 3.65 | 32.76 | 9.0 | 3.49 | 47.86 | 13.7 |
| Kitimat | 6.97 | 31.37 | 4.5 | 4.90 | 38.44 | 7.8 | 4.71 | 12.94 | 2.7 |
| Langley | 6.24 | 15.54 | 2.5 | 3.95 | 11.60 | 2.9 | 4.07 | 40.23 | 9.9 |
| Maple Ridge | 8.17 | 31.30 | 3.8 | 3.85 | 34.95 | 9.1 | 4.70 | 42.83 | 9.1 |
| Nanaimo | 11.81 | 28.81 | 2.4 | 6.09 | 46.24 | 7.6 | 7.98 | 34.56 | 4.3 |
| New Westminster | 9.59 | 30.15 | 3.1 | 4.81 | 27.32 | 5.7 | 5.89 | 31.01 | 5.3 |
| Pitt Meadows | 5.58 | 16.57 | 3.0 | 3.56 | 24.73 | 6.9 | 4.50 | 30.04 | 6.7 |
| Port Alberni | 12.14 | 45.41 | 3.7 | 6.34 | 61.74 | 9.7 | 8.90 | 72.92 | 8.2 |
| Port Coquitlam | 8.95 | 15.77 | 1.8 | 4.41 | 16.06 | 3.6 | 5.16 | 21.67 | 4.2 |
| Port Moody | 8.50 | 26.34 | 3.1 | 3.83 | 31.96 | 8.3 | 4.58 | 41.68 | 9.1 |
| Prince Rupert | 7.66 | 23.07 | 3.0 | 7.95 | 28.28 | 3.6 | 9.16 | 33.89 | 3.7 |
| Richmond | 5.27 | 16.12 | 3.1 | 2.70 | 18.64 | 6.9 | 3.55 | 9.61 | 2.7 |
| Squamish | 7.54 | 25.63 | 3.4 | 3.91 | 40.79 | 10.4 | 5.26 | 50.04 | 9.5 |
| Surrey | 5.12 | 11.64 | 2.3 | 3.46 | 13.59 | 3.9 | 3.67 | 14.88 | 4.1 |
| Vancouver | 5.18 | 27.13 | 5.2 | 2.74 | 30.21 | 11.0 | 2.99 | 30.54 | 10.2 |
| West Vancouver | 6.87 | 11.31 | 1.6 | 3.61 | 10.62 | 2.9 | 3.67 | 10.38 | 2.8 |
| School Tax Rate | 7.40 | 14.60 | 2.0 | 3.60 | 12.70 | 3.5 | 3.70 | 12.50 | 3.4 |

**Table D3 – Taxes Collected**

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Burnaby | 59,704 | 31,477 | 2,539 | 93,714 | 45,254 | 4,878 | 114,079 | 54,188 | 4,854 |
| City of North Vancouver | 12,638 | 7,024 | 1,761 | 20,315 | 9,239 | 3,829 | 25,900 | 11,959 | 4,731 |
| Coquitlam | 21,158 | 13,044 | 535 | 40,233 | 23,014 | 1,357 | 56,482 | 32,604 | 1,680 |
| Delta | 25,392 | 17,312 | 753 | 42,801 | 26,621 | 2,511 | 59,021 | 34,496 | 3,479 |
| District of North Vancouver | 22,789 | 17,515 | 1,623 | 40,777 | 29,564 | 4,032 | 42,957 | 30,417 | 4,448 |
| Kitimat | 8,547 | 1,171 | 6,859 | 11,011 | 1,417 | 9,022 | 12,648 | 1,876 | 10,104 |
| Langley | 13,075 | 9,703 | 62 | 32,508 | 23,153 | 166 | 39,798 | 25,877 | 95 |
| Maple Ridge | 11,895 | 8,627 | 428 | 19,220 | 14,265 | 674 | 25,670 | 19,283 | 603 |
| Nanaimo | 20,811 | 11,876 | 2,267 | 38,388 | 22,883 | 4,563 | 47,595 | 29,220 | 4,157 |
| New Westminster | 18,844 | 9,904 | 1,937 | 28,790 | 16,488 | 2,105 | 33,675 | 19,697 | 2,356 |
| Pitt Meadows | 1,807 | 1,174 | 69 | 4,462 | 2,847 | 124 | 6,012 | 3,903 | 79 |
| Port Alberni | 9,637 | 3,163 | 4,626 | 13,577 | 4,577 | 6,393 | 15,863 | 5,746 | 7,194 |
| Port Coquitlam | 10,326 | 7,116 | 9 | 20,196 | 13,082 | - | 24,604 | 15,734 | - |
| Port Moody | 6,525 | 3,639 | 1,586 | 11,501 | 5,887 | 3,908 | 13,419 | 7,806 | 3,083 |
| Prince Rupert | 9,818 | 2,102 | 5,076 | 12,846 | 3,771 | 5,342 | 13,001 | 4,053 | 5,173 |
| Richmond | 38,833 | 20,150 | 495 | 70,450 | 37,477 | 789 | 89,538 | 44,564 | 834 |
| Squamish | 4,011 | 1,443 | 1,805 | 7,273 | 3,042 | 2,602 | 9,618 | 4,677 | 2,741 |
| Surrey | 39,555 | 27,972 | 262 | 100,236 | 70,651 | 536 | 114,598 | 80,360 | 516 |
| Vancouver | 210,325 | 83,609 | 3,656 | 327,179 | 138,199 | 6,189 | 368,985 | 157,622 | 4,689 |
| West Vancouver | 20,381 | 18,055 | 14 | 30,788 | 28,210 | 5 | 35,053 | 32,157 | - |
| GVRD W/Port Industry | 317,225 | 157,072 | 9,641 | 542,808 | 280,162 | 21,004 | 624,880 | 322,660 | 20,947 |

**Table D4 – Percent Taxes Collected by Property Class**

| Municipality | 1988 | | 1995 | | 2000 | |
|---|---|---|---|---|---|---|
| | Residential | Maj Industry | Residential | Maj Industry | Residential | Maj Industry |
| Burnaby | 52.7% | 4.3% | 48.3% | 5.2% | 47.5% | 4.3% |
| City of North Vancouver | 55.6% | 13.9% | 45.5% | 18.8% | 46.2% | 18.3% |
| Coquitlam | 61.6% | 2.5% | 57.2% | 3.4% | 57.7% | 3.0% |
| Delta | 68.2% | 3.0% | 62.2% | 5.9% | 58.4% | 5.9% |
| District of North Vancouver | 76.9% | 7.1% | 72.5% | 9.9% | 70.8% | 10.4% |
| Kitimat | 13.7% | 80.2% | 12.9% | 81.9% | 14.8% | 79.9% |
| Langley | 74.2% | 0.5% | 71.2% | 0.5% | 65.0% | 0.2% |
| Maple Ridge | 72.5% | 3.6% | 74.2% | 3.5% | 75.1% | 2.4% |
| Nanaimo | 57.1% | 10.9% | 59.6% | 11.9% | 61.4% | 8.7% |
| New Westminster | 52.6% | 10.3% | 57.3% | 7.3% | 58.5% | 7.0% |
| Pitt Meadows | 65.0% | 3.8% | 63.8% | 2.8% | 64.9% | 1.3% |
| Port Alberni | 32.8% | 48.0% | 33.7% | 47.1% | 36.2% | 45.4% |
| Port Coquitlam | 68.9% | 0.1% | 64.8% | 0.0% | 63.9% | 0.0% |
| Port Moody | 55.8% | 24.3% | 51.2% | 34.0% | 58.2% | 23.0% |
| Prince Rupert | 21.4% | 51.7% | 29.4% | 41.6% | 31.2% | 39.8% |
| Richmond | 51.9% | 1.3% | 53.2% | 1.1% | 49.8% | 0.9% |
| Squamish | 36.0% | 45.0% | 41.8% | 35.8% | 48.6% | 28.5% |
| Surrey | 70.7% | 0.7% | 70.5% | 0.5% | 70.1% | 0.5% |
| Vancouver | 39.8% | 1.7% | 42.2% | 1.9% | 42.7% | 1.3% |
| West Vancouver | 88.6% | 0.1% | 91.6% | 0.0% | 91.7% | 0.0% |

**Table D5 – Analysis of Residential Taxes Collected**

| Municipality | Municipal Class 1 Taxes | | Class 1 Tax Rate | | Authenticated Roll General Taxable Value | | % Change in Taxes | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | |
| Burnaby | 31,477 | 54,188 | 6.60 | 3.80 | 4,769,197 | 14,259,895 | 72.2 | 199.0 | (126.8 |
| City of North Vancouver | 7,024 | 11,959 | 6.10 | 3.45 | 1,151,525 | 3,466,464 | 70.3 | 201.0 | (130.8 |
| Coquitlam | 13,044 | 32,604 | 6.05 | 4.10 | 2,155,967 | 7,952,171 | 150.0 | 268.8 | (118.9 |
| Delta | 17,312 | 34,496 | 7.06 | 4.75 | 2,452,153 | 7,262,295 | 99.3 | 196.2 | (96.9 |
| District of North Vancouver | 17,515 | 30,417 | 6.29 | 3.49 | 2,784,642 | 8,715,587 | 73.7 | 213.0 | (139.3 |
| Kitimat [1] | 1,171 | 1,876 | 6.97 | 4.71 | 167,991 | 398,585 | 60.2 | 137.3 | (77.0 |
| Langley | 9,703 | 25,877 | 6.24 | 64.92 | 1,555,032 | 398,585 | 166.7 | (74.4) | 241.0 |
| Maple Ridge | 8,627 | 19,283 | 8.17 | 4.70 | 1,055,887 | 4,102,660 | 123.5 | 288.6 | (165.0 |
| Nanaimo | 11,876 | 29,220 | 11.81 | 7.98 | 1,005,580 | 3,661,716 | 146.0 | 264.1 | (118.1 |
| New Westminster | 9,904 | 19,697 | 9.59 | 5.89 | 1,032,711 | 3,344,194 | 98.9 | 223.8 | (124.9 |
| Pitt Meadows | 1,174 | 3,903 | 5.58 | 4.50 | 210,412 | 867,289 | 232.4 | 312.2 | (79.8 |
| Port Alberni | 3,163 | 5,746 | 12.14 | 8.90 | 260,535 | 645,618 | 81.7 | 147.8 | (66.1 |
| Port Coquitlam | 7,116 | 15,734 | 8.95 | 5.16 | 795,050 | 3,049,128 | 121.1 | 283.5 | (162.4 |
| Port Moody | 3,639 | 7,806 | 8.50 | 4.58 | 428,165 | 1,704,258 | 114.5 | 298.0 | (183.6 |
| Prince Rupert | 2,102 | 4,053 | 7.66 | 9.16 | 274,373 | 442,511 | 92.9 | 61.3 | 31.6 |
| Richmond | 20,150 | 44,564 | 5.27 | 3.55 | 3,823,510 | 12,553,296 | 121.2 | 228.3 | (107.2 |
| Squamish | 1,443 | 4,677 | 7.54 | 5.26 | 191,313 | 889,163 | 224.2 | 364.8 | (140.5 |
| Surrey | 27,972 | 80,360 | 5.12 | 3.67 | 5,463,281 | 21,896,540 | 187.3 | 300.8 | (113.5 |
| Vancouver | 83,609 | 157,622 | 5.18 | 2.99 | 16,140,753 | 52,716,355 | 88.5 | 226.6 | (138.1 |
| West Vancouver | 18,055 | 32,157 | 6.87 | 3.67 | 2,628,035 | 8,762,125 | 78.1 | 233.4 | (155.3 |
| GVRD w/Port Terminals | 157,072 | 322,660 | 5.53 | 3.37 | 28,420,519 | 95,761,498 | 105.4 | 236.9 | (131.5 |

Source: Ministry of Municipal Affairs, Municipal Statistics, Schedule 61

[1] In 2000 Kitimat had a flat rate and a split rate - the 200 tax rate is a calculated effective rate.

**Table D6 – Analysis of Major Industry Taxes Collected**

| Municipality | Municipal Class 4 Taxes | Class 4 Tax Rate | Authenticated Roll General Taxable Value | | % Change in Taxes | | |
|---|---|---|---|---|---|---|---|
| Burnaby | 2,539 | 4,854 | 19.80 | 44.55 | 128,247 | 108,958 | 91.2 | (15.0) | 106. |
| City of North Vancouver | 1,761 | 4,731 | 14.36 | 39.03 | 122,660 | 121,202 | 168.6 | (1.2) | 169. |
| Coquitlam | 535 | 1,680 | 21.28 | 46.14 | 25,141 | 36,415 | 214.1 | 44.8 | 169. |
| Delta | 753 | 3,479 | 14.11 | 24.72 | 53,338 | 140,740 | 362.3 | 163.9 | 198. |
| District of North Vancouver | 1,623 | 4,448 | 16.18 | 47.86 | 100,278 | 92,946 | 174.2 | (7.3) | 181. |
| Kitimat | 6,859 | 10,104 | 31.37 | 12.94 | 218,645 | 780,796 | 47.3 | 257.1 | (209. |
| Langley | 62 | 95 | 15.54 | 40.23 | 4,003 | 2,354 | 52.3 | (41.2) | 93. |
| Maple Ridge | 428 | 603 | 31.30 | 42.83 | 13,661 | 14,086 | 41.1 | 3.1 | 38. |
| Nanaimo | 2,267 | 4,157 | 28.81 | 34.56 | 78,674 | 120,269 | 83.4 | 52.9 | 30. |
| New Westminster | 1,937 | 2,356 | 30.15 | 31.01 | 64,255 | 75,972 | 21.6 | 18.2 | 3. |
| Pitt Meadows | 69 | 79 | 16.57 | 30.04 | 4,146 | 2,630 | 15.0 | (36.6) | 51. |
| Port Alberni | 4,626 | 7,194 | 45.41 | 72.92 | 101,870 | 98,657 | 55.5 | (3.2) | 58. |
| Port Coquitlam | 9 | - | 15.77 | 21.67 | 552 | - | (100.0) | (100.0) | - |
| Port Moody | 1,586 | 3,083 | 26.34 | 41.68 | 60,216 | 73,978 | 94.4 | 22.9 | 71. |
| Prince Rupert | 5,076 | 5,173 | 23.07 | 33.89 | 220,004 | 152,650 | 1.9 | (30.6) | 32. |
| Richmond | 495 | 834 | 16.12 | 9.61 | 30,732 | 86,836 | 68.4 | 182.6 | (114. |
| Squamish | 1,805 | 2,741 | 25.63 | 50.04 | 70,414 | 54,778 | 51.9 | (22.2) | 74. |
| Surrey | 262 | 516 | 11.64 | 14.88 | 22,534 | 34,684 | 96.8 | 53.9 | 42. |
| Vancouver | 3,656 | 4,689 | 27.13 | 30.54 | 134,773 | 153,540 | 28.2 | 13.9 | 14. |
| West Vancouver | 14 | - | 11.31 | 10.38 | 1,194 | - | (100.0) | (100.0) | - |
| GVRD w/Port Terminals [1] | 9,641 | 20,947 | 19.52 | 33.94 | 493,800 | 617,090 | 117.3 | 25.0 | 92. |
| Total | 36,361 | 60,817 | 24.98 | 28.27 | 1,455,338 | 2,151,491 | 67.3 | 47.8 | 19. |

Source: Ministry of Municipal Affairs, Municipal Statistics, Schedule 61
[1] City of North Vancouver, Delta, District of North Vancouver, Port Moody, Surrey and Vancouver

# APPENDIX E – ANNOTATED BIBLIOGRAPHY

## *British Columbia Freight Transportation System Study*

**Prepared by KPMG Consulting, Sandwell Inc., and Acres International Limited for Transport Canada, Pacific Region, April 1996.**
This study provides a comprehensive overview of the status of the freight transportation system in BC. This study provides a detailed description of the truck, rail, air cargo and seaport infrastructure, a summary of statistics on current and projected usage, a capacity analysis, identification of issues and trends effecting the system, identification of potential congestion and alternatives and possible road and rail diversion corridors to US west coast ports.

The general findings and conclusions of the study are:

- The freight transportation system in BC plays a critical role in ensuring the price competitiveness of Canadian products in the world market. In order to retain and expand its position, Canada must work to constantly improve its performance and reputation;
- As the supply chain becomes increasingly integrated, freight carriers will be challenged to transport cargo faster, more reliably, cheaper and with more available services through more cooperation and partnerships between shippers and carriers and greater use of intermodal and multimodal transportation;
- Between 1994 and 2005, the growth in the movement of freight through major BC ports is expected to be small, and the port system has the capacity to move the forecast volumes of freight, though road and rail access are concerns;
- The national highway system and associated airport and port access routes require improvements with the biggest issue being congestion in the Lower Mainland area;
- Rail is the primary mode of transportation for the nation's exporters and importers and though the rail system has sufficient capacity to handle expected volumes there is a major concern with the interface between railways and marine terminals in the Lower Mainland where congestion, limited land and at-grade street crossings will continue to be strong irritants;
- Diversion of traffic to US ports is happening and could expand, however, the circumstances where diversions occur are likely to be very specific and not based solely on price;
- The future of grain exports is the biggest unknown and a number of facets of the grain industry are facing significant change over the coming decade - the repercussions will ultimately have an impact on BC grain movements.

[Note: this study is currently in the process of being updated]

## *Canada/US Port Competitiveness Study – Final Report*

**Prepared for Transport Canada, Prepared by Sparks Companies, Inc., February 2000.**
The Estey review of the Canadian grain handling and transportation system included a recommendation that a review be undertaken of the competitiveness of Canadian grain exports vis-à-vis those of the US. The objective of this study is to determine the competitiveness of Canadian grain ports in relation to US grain ports with respect tot he shipment of Western Canadian grains to offshore buyers. The approach is to consider those issues which would induce either the Canadian Wheat Board or Canadian private exporters to select a US port over a Canadian port to ship grain to an overseas customer. The report contends that port competitiveness includes more than just port costs or fees and the approach taken in the study is based on assumption that competition is a function of price, service and capability. Thus, all else being equal, price (or cost) is the foundation of grain trading decisions and all else being equal, customer service will play a deciding role in the selection of routes and ports for moving grain. Furthermore, ports competitiveness is more than just ports costs or fees and also includes the total transportation costs related to using a particular route/port combination.

Therefore, employing spot rates, tariffs, fees and charges this study compares the *total* cost of moving wheat and canola from selected points in Western Canada to selected off-shore designation going through the four grain ports in Canada – Vancouver, Prince Rupert, Thunder Bay and Churchill – and through the three major grain ports in the United States – Portland, Duluth/Superior, the Centre Gulf.

Some of the major conclusions or observations of this report are that:

- Canadian grain marketing and handling system is very different from the system in the US. Some of the major differences that effect issues of competitiveness include
  - the major exporter in Canada, the Canadian Wheat Board, does not own any facilities;
  - the vast majority of US exports are made by the same firms that operate the terminals, whereas in Canada terminals provide handling services for a fee or toll;
  - the Canadian grain handling and transportation system is highly regulated and this has an impact on the ability of owners and operators of grain elevators and terminals to full exploit and control their assets.
- Canadian route/port combinations are more cost effective as compared to US ports for Canadian grain exports:
- US rail rates would have to decline by 7 percent to make US routes more competitive.
- the level of the exchange rate between the Canada and US dollar has an influence on the cost comparison between the US and Canada, but the Canadian dollar would have to strengthen significantly against the US dollar in order for US ports to become more attractive.
- the magnitude of cost differentials between Canadian and US ports is far greater than ports costs. Though port fees and costs are not of a material magnitude in terms of determining the most competitive route/port for Canadian grain exports, because US terminals have a lower cost environment than Canadian ports, it can be assumed that the Canadian export system is more costly to the producer than in the US.

- congestion is the key to whether Canadian grain exports will more through US ports; congestion at Vancouver in particular can force grain through other routes.
- implementing Estey/Kroeger recommendations is expected to have a material impact on the efficiency of the grain handling and transportation system with the majority of the benefits accruing to the western Canadian farmer.
- port authorities in Canada and the US have significantly different financing capabilities and US ports have much greater flexibility in terms of financing their operations.

## *Capital Investment by US West Coast Ports*

**Dorsey and Whitney LLP, October 15, 1999.**
The report summarizes the recent capital investment and capital investment plans for US West Coast ports. The general finding of the report is that the US West Coast ports have undertaken major capital investment to expand and improve facilities in the 1990s and that they plan to continue this investment for the foreseeable future. The report provides a summary of the investment activity for the ports of Long Beach, Los Angeles, Los Angeles/Long Beach Alameda Corridor Project, Oakland, Portland, San Diego, Seattle, and Tacoma and provides a summary of federal tax law.

The report also makes some general concluding observations, including:

- the greatest investment has been made in container handling facilities and in ensuring intermodal efficiency;
- funding sources shifted somewhat in the 1990s from past decades away from the use of general obligation bonds toward the use of revenue bonds, as well as capital funding out of current operating revenue;
- public/private partnerships have been used creatively to enhance port development;
- ports apparently plan to continue to compete with one another for market share, with the support of local political leaders and business interests who see port activity as a lever and stimulant of other business activity and not as an activity which itself needs to be profitable;
- an area of uncertainty lies in the question of future funding sources for waterway dredging and the ability to dredge.

## *Competitiveness of BC Ports*

**The Report of the BC Ports Competitiveness Committee, March, 2000.**
The report reviews the forces effecting the medium to long-term competitiveness of marine operators in BC and suggests solutions to dealing with the identified issues. According to the report, the key issues affecting the competitiveness of BC ports are:

- the erosion of the land base used by port operators;
- the high municipal tax burden on port operators;

- the advantages provided to US ports through US public policy respecting ports (subsidies, lower cost of borrowing, advantageous property tax structure and the coordinated effort at all levels of government in the US to support ports activity); and
- the targeting of Canadian ports business by US operators.

In response to these forces, the report recommends that the BC government

- establish a ports land reserve,
- impose a tax freeze while assessing and implementing a fairer property tax structure on ports property,
- provide incentives for new capital investment (social services tax exemption for maintenance and repair investment and a provincial tax credit applicable to borrowings to finance new port related capital expenditures), and
- work with the federal government to seek a change to federal fiscal and taxation policies effecting investment costs in ports infrastructure (such as stipends, grants in lieu , tax free bonds, port infrastructure investments to be included in federal-provincial infrastructure program) and to address other issues including navigational service fees, pilotage and the role of government in ensuring efficient access to ports property.

The bottom-line is that though the low Canadian dollar is currently "masking" some of the costs pressures, unless action is taken now it will be very difficult for the BC ports to remain competitive in the longer-term.

## *Competitiveness of Canadian Ports*

**Speech to the Annual General Meeting of the Association of Canadian Port Authorities by Gary LeRoux, Principal of the Industry Government Relations Group, August 6, 2000.** The basic theme of this presentation to the 2000 Annual General meeting of the ACPA is that Canadian ports are competitive but that there are several areas needing attention to enhance the competitiveness of BC ports. The presentation outlines the things that make ports competitive and the areas requiring the attention of public policy makers.

The presenter contends that the Canadian transportation system has met the geographic challenge. Canada has one of the most modern and highly developed transportation infrastructures and according to a recent Global Competitiveness Report, Canada's transportation system is one of the best among G-7 countries. The speech outlines the strengths of the different modes of transportation (rail, shipping and road network) and emphasizes their interconnectedness, particularly with respect to the importance of the rail system to ports.

According to the presentation, it is a time of great change and opportunity for the port community. Some of the factors affecting ports competitiveness are:

- efficiency of port operations;
- competitiveness of other modes of transportation;
- competitiveness of US ports;
- impacts of globalization;

- public policy decisions related to ports;
- public policy decisions related to other modes of transportation;
- general economic and tax policy; and
- the regulatory framework for transportation modes in Canada.

The presenter outlines some of the things that need to be addressed to ensure Canada's continued prosperity including, the role of government in creating a welcoming environment for business; the need for sound information to inform public policy development for ports (need for better information to get better public policy related to ports); the need to view the entire transportation system as a whole in making public policy for ports and any specific transportation sector; and the need to address the question of how US marine policy impacts the competitiveness of Canadian ports.

The presenter also suggests that the competitiveness of Canadian ports will be impacted by a number of national level public policy issues such as better Canada-US border crossings; monetary policy; reforming Canada's financial services sector; corporate taxation; response to Industry Standing Committee productivity and competitiveness report; cost recovery; strong intermodal systems; information systems technology; infrastructure; trade and transportation corridors; harmonization; safety and the environment; and sustainable transportation.

The forces affecting the competitiveness of ports point to the need for more coordination in transportation policy and key changes to port regulations. A critical first step in this process is a review of the *Canada Marine Act* – and the sooner the better.

## *Competitiveness & The Greater Vancouver Gateway – An Institutional Problem?*

**Prepared for The Vancouver Port Corporation by Jonathan Seymour and Associates, April 28, 1993.**
This report examines the issue of the competitiveness of the Greater Vancouver Gateway and comes to the general conclusion that the institutional system in place at that time has a negative impact on the competitiveness of the Gateway. It suggests that "port rationalization" is an appropriate response to the loss of competitiveness of the Gateway and proposes a number of alternatives ranging from

- changing the status of Port Corporations to Harbour Commissions and merging existing Gateway Harbour Commissions into a single Harbour Commission for the Gateway,
- the creation of a single local authority for the Gateway with powers at least equivalent to that enjoyed by Harbour Commissions,
- the creation of a Gateway Authority with unequivocal decision-making powers over port planning, land use, management, financing and marketing,
- combining all sea and airport interests in the Gateway under a single administrative body,
- the privatization of all of the public authorities in the Gateway.

## *Directions for Growth – Report and Recommendations on the Competitive Position of the Greater Vancouver Sea Ports,*

**Greater Vancouver Gateway Council, August 1995.**
This report identifies and discusses the competitive situation faced by Gateway ports (Port of Vancouver and Fraser Port) and makes recommendations respecting government action that is required to ensure that Gateway ports are able to compete effectively with US ports.

The report outlines the competitive advantages that US Pacific Northwest ports have over the Gateway ports including:

- ability of US ports to issue 30 year revenue bonds to finance terminal expansions (in comparison with 10 year terms available to Gateway ports);
- ability of US ports to issue tax exempt special obligation revenue bonds to finance terminal expansions at six percent (compared to 12 percent for Gateway private terminals and nine percent for public authorities);
- low property taxation for US ports (Gateway terminals pay between two and ten times more in municipal property tax than their US competitors);
- US government grants for transportation infrastructure;
- ability of US ports to levy taxes;
- perception that US ports are more reliable than Canadian ports;
- fact that US ports are not required to make payments to shareholders (between 1984 and 1994 the Vancouver Port Corporation paid, on average, $6.5 million a year in dividends and made special payments averaging $10 million a year); and
- US ports are not subject to a Corporation Capital Tax.

The report contends that the investment charges and local taxation differences between marine terminals in the US Pacific Northwest and the Gateway are the major threat to the Gateway's competitive position over the longer term.

To redress this competitive imbalance the report recommends changes in three main areas:

*Expanded borrowing powers and related lease agreements* such as

- allowing port authorities to issue general purpose revenue bonds repaid from general port operating revenues;
- developing debt service coverage criteria to ensure that port authorities have sufficient operating income to repay long term debt on a commercial basis;
- allowing port authorities to issue special obligation revenue bonds on a tax exempt basis to be repaid directly by terminal operators with no liability to the port authority and enter into financial lease agreements where terminal operators pay rentals over the term of the lease sufficient to retire the special obligation revenue bond;
- allowing ground lease agreements that will set out long term relationships between port authorities and terminal operators to create business partnerships.

*Payment of Municipal taxes* –the Gateway Council believes that port authorities should be exempt from municipal tax obligations. If there is a requirement to negotiate appropriate fees for municipal services used there should be an arbitration mechanism built into legislation providing for the resolution of any differences in opinion about the amount of such fees.

*Payment of dividends by port authorities* – The Gateway Council endorses the House of Commons Standing Committee on Transportation Marine Policy recommendation that port authorities should pay a dividend to Canada based on an agreed formula which determines amount of assessable net income for dividend purposes and rates of dividend payments and that the practice of special cash payments be discontinued.

Without these changes the report contends, there is a significant risk of further diversions of Western Canadian bulk commodity exports to US Pacific Northwest ports. Given the high cost of capital investment in West Coast ports, the resultant reduction in throughput volume will make it difficult for terminal operators to generate sufficient capital for reinvestment in plant and equipment. Higher costs of capital investment and local taxation also reduce the capital available for expansion and limit the ability of Gateway ports to pursue new business opportunities. The routing of significant volumes of Canada's export trade through US ports creates a strategic threat to Canada's export trade and balance of payments.

## *Factors Affecting the Competitiveness of Canada's West Coast Ports"*

**Project Report, Prepared by Ekstrom Port Consultants Ltd., Prepared for: Ministry of Transportation, Province of British Columbia, Alberta Transportation and Utilities, Province of Alberta, Saskatchewan Highways and Transportation, Province of Saskatchewan, Manitoba Department of Highways and Transportation, Province of Manitoba, January 1992.**
The purpose of the report was to identify the factors that make West Coast ports more or less competitive. The work was based on available reports and discussions with representatives of the key stakeholders in the shipment of Canadian cargoes through West Coast ports. The goal of the study was to "provide a better understanding of the problems facing the ports, railway companies and port management and labour in their ongoing efforts to offer a competitive West Coast port and transportation system in support of Canadian export and import trades."

The report proposes that *competitiveness* in the ports system, and related transportation systems, include such factors as: productivity; efficiency, quality of service, cost to users, and reliability. It contends that the various sectors where changes are required in pursuit of *improved competitiveness* include:

- Rail transportation systems
- Terminal operations
- Management and labour
- Port infrastructures and expansion possibilities
- Port services
- Port authority policies and procedures
- Government policy and procedures.

The report then goes on to discuss the specific factors affecting the competitiveness of the BC ports. With respect to the shipment of commodities (grain, coal, sulphur, potash, forest products, ores and other minerals, and liquid chemicals), the general concerns include: high rail transport costs and railway capacity; transportation congestion at ports; terminal labour costs; the ability to improve labour relations on the waterfront; long-term port development plans (and the need for coordination); and, for grain, the ability of the existing grain terminals to expand sufficiently to meet demand and improve efficiencies. The report also has a chapter on the *Western Grain Transportation Act* and the need for change in the Act benefit payments from the railroads to producers.

With respect to containers, the general concerns for this sector include the rapid increase in volume of US containerized exports reducing the need for shipping lines to call at Vancouver to balance their westbound trade; the ability to attract sufficient container trade to Vancouver to ensure the attractiveness of Vancouver as a separate port of call for container lines; the need to improve productivity; and the need for improved labour/management relations.

The concerns respecting rail services include the relative tax burden of Canadian railroads; the restrictions on their ability to rationalize operations and ability to offer and promote double stack services. The high cost of pilotage and tugboat services was cited as a concern respecting supporting port services. With respect to port administration, various general concerns effecting the competitive position of West Coast ports were identified such as competition between Vancouver and Fraser ports for container traffic and the separate marketing of these ports; the improving financial position of Puget Sound ports; the uncertainty in planning expansions or new facilities in the Lower Mainland due to changing social and environmental requirements; government policies regarding lease rates and financial return on capital investments; and tax differential for ports in Canada and the US.

## *Grain Handling and Transportation Review – Final Report*

**The Hon. Willard Z. Estey, CC, QC, Submitted to The Honourable David Collenette, PC, MP.**

In 1998, Justice Estey was appointed by the Minister of Transport Canada to conduct a comprehensive, forward-looking review of the handling and transportation system for prairie grain and grain products and to develop recommendations and related implementation plans to:

- ensure Canada has the world's most efficient, viable, and competitive grain handling and transportation system to meet the ongoing and long term expectations and demands of all customers;
- maximize system efficiency, competitiveness and capacity utilization for grain producers, shippers, carriers and ports;
- create an environment for the establishment of clear and transparent roles, responsibilities and accountabilities for each system participant, including government; and
- create a responsive and customer-oriented logistics system that is cost effective and will promote necessary investments and adoption of best practices.

The final report of the review made fifteen recommendations constituting a blueprint for a less-regulated and more accountable and competitive grain handling and transportation system:

*Recommendation 1: Ports and Waterways* - That special measures be taken to alleviate congestion at the Port of Vancouver by revitalizing the ports of Prince Rupert and Churchill, and by promoting the St. Lawrence Seaway.

*Recommendation 2: Management of Information System* - That there be no intervention. The need to protect sensitive information and respect competition laws complicates the creation of a central management structure.

*Recommendation 3: Cleaning of Grain* - That, where possible, grain be cleaned on the Prairies to avoid the cost of transporting dockage and to relieve congestion at the ports.

*Recommendation 4: Producer-Loaded Cars* - That the right of the farmer to order and load producer cars be retained in law, and that access to railway sidings and the grading of grain by the Canadian Grain Commission at the loading site be made available.

*Recommendation 5: Hopper Car Ownership* -That the right of first refusal of the railways to buy these cars be removed or allowed to expire before sale of the federal government-owned hopper cars is undertaken. If the government decides to sell the cars, it is recommended that they be sold at full market value on the condition that they be made available to the Western Canadian grain industry.

*Recommendation 6: Car Allocation* - That the current mechanism be discontinued and replaced with a commercial allocation system driven by sales commitments and allowing longer-term reservations, and that a pool of standing referees be appointed by the Minister of Transport to hear complaints and issue decisions.

*Recommendation 7: Rail Rate Cap* - That the existing rail rate cap on grain freight for export be modified to allow for more flexible pricing options through legislation, and that the average rate be reduced over a six-year period by a set amount.

*Recommendation 8: Competition Among Railways* - That, in the provisions of the Canada Transportation Act (CTA), the words "any person" be substituted for "any railway" to broaden the current regime governing running rights and to increase competition among railways.

*Recommendation 9: Final Offer Arbitration* - That the final offer arbitration procedure be strengthened by clarifying and simplifying the terms under which shippers, carriers and third parties may refer their disputes over transportation issues.

*Recommendation 10: Branch Line Abandonment* - That the CTA be revised to bind the parties to the performance of the spirit as well as the letter of the statute; that the CTA allowances for communities to purchase abandoned track be strengthened and prevent splitting a branch line into uneconomic segments; and that some savings from abandonments be directed to the communities affected by the closures.

*Recommendation 11: Trucks and Road Repair* - That the federal and provincial governments collaborate to apply some of their fuel tax collections to the construction, maintenance and repair of the municipal grid roads and secondary provincial highways between farm and market.

*Recommendation 12: Harvest Quota* - That the quota be eliminated and a program be established by the Canadian Wheat Board (CWB) to contract directly with buyers early in the crop year.

*Recommendation 13: Contract Calls* - That the CWB Act be amended to prohibit grain from moving into the logistics system in the absence of a sales contract, to recognize the farmer as the shipper, and to tighten the windows within which farmers deliver grain to the elevators in response to supply calls.

*Recommendation 14: Principle Role of the CWB* - That the CWB concentrate on its marketing function, and remove itself from active participation in the handling and transporting of grain, and that the CWB tender contracts to ensure the delivery of board grains.

*Recommendation 15: Review of Efficiency Gains* - That there be a review in crop year 2000–2001 of productivity and the flow-through of these gains to the farmer and other stakeholders.

The recommendations are a balance of enhancements and modifications for a more commercial system with safeguards to protect the public interest where necessary. The recommendations were deliberately quite general, leaving considerable discretion to those charged with implementation.

The Estey review of the grain handling system was motivated by a widespread belief in the grain industry that efficiency improvements were urgently needed to maintain and improve Canada's position as a major world grain trader. Because Canadian grain farmers face some of the longest inland distances to market of any exporting nation, transportation is a large share of the Canadian farmer's costs. Minimizing these costs is a critical factor to their success, particularly when margins get squeezed by low grain prices. Given that rail transportation is the largest single cost incurred by farmers in producing, handling and shipping of export grains, the pricing and performance of the rail system was one of the central issues in the Estey Review.

The basic question considered in the Estey review was whether to eliminate the regulated rate schedule, known as the rate cap (rail freight rates for the majority of grain movements in western Canada have been regulated since the imposition of the "Crow Rate" in 1897). The rate cap provides for equity—equal rate for equal distance shipped. However, shipments where the railways incur high costs to provide the service pay the same rate as low cost movements. Accordingly, some argue that a commercial rate system, where rates are negotiated between shippers and railways, would better reflect the true costs and demand for various services.

Another major issue dealt with in the review was the transportation role of the Canadian Wheat Board (CWB). The CWB and others believe the CWB must continue to have a strong role in transportation (e.g., developing delivery schedules, influencing the assignment of rail cars to elevators) in order to meet its sales commitments and maximize returns to producers. However others view the CWB as an unnecessary third party in the transportation chain. The argument is that responsibilities are blurred, competition among elevator companies restricted, and inefficiencies created. Proponents of this view advocate removing the CWB from transportation, leaving all transportation and handling to the grain companies and railways. Many system participants believe that commercial contracts are the best way to ensure that the needs,

responsibilities, and authorities of the CWB, farmers, grain companies and railways are clearly spelled out.

Justice Estey suggested a compromise on the issue of the rate cap that would permit clearer market signals to be sent by railway tariffs. He proposed to repeal the regulated rate system in return for a guaranteed freight revenue reduction by the railways, set as a ceiling on total railway freight revenue (revenue cap). He also suggested the removal of the grain transportation and handling functions of the CWB and the commercialization of rail car allocation.

Justice Estey set out his recommendations in the form of principles and indicated that the development of the details necessary for the implementation of these principles needed to involve all stakeholders. To achieve this end, the Minister of Transport appointed Mr. Arthur Kroeger to launch and manage a consultative process involving western stakeholders in the development of the necessary operational details of a more commercial grain handling and transportation environment. [The above is based on a summary of the Grain Handling and Transportation System Review prepared by WESTAC.]

The Kroeger process, however, found stakeholders unable to agree on: 1) how much rail revenues should be reduced; and 2) how to share any productivity gains resulting from market driven railway tariffs. Kroeger suggested a "middle of the road solution to reduce the rate cap by a level that would result in a substantial savings to producers, while still leaving the railways with room to offer innovative service packages to shippers" (September 29, 1999, letter Kroeger to Minister of Transport). The Kroeger process also found no consensus around the role of the CWB and the implementation of the Estey recommendation to move to a fully contractual model. Again Kroeger suggested a compromise solution (considered to be 70 to 80 percent Estey) involving important changes to the system while preserving a "key role for the CWB in grain handling and transportation.

On May 10, 2000, the federal government announced a reform package based on the Estey's review, and the recommendations for implementation made by Kroeger. The reform package includes amendments to the *Canada Transportation Act* (Bill C-44, passed on June 22, 2000) and a memorandum of understanding with the CWB pertaining to changes in the western grain handling and transportation system.

The reform package contains six main components:

- Replacement of the current maximum railway rate scale with a cap on annual railway revenues from grain (representing an estimated 18 percent reduction in 2000-2001 freight rates, saving farmers an estimated $178 million per year);
- Funding for prairie grain roads ($175 million over five years);
- Creation of a more commercial and competitive system for moving grain from country elevators to ports, which will be achieved through the expansion of tendering for Canadian Wheat Board (CWB) shipments to port;
- Improvements to the Final Offer Arbitration (FOA) provisions of the Canada Transportation Act;
- Improvements to the branch line rationalization process; and
- An expedited examination of the ways to increase railway competition, included in the review of the *Canada Transportation Act.*

## *Infrastructure Challenges and Solutions*

**Presentation to the BC Business Summit 98 by R.V. Wilds, Chair Greater Vancouver Gateway Council, November 9, 1998.**
This presentation puts forward ideas for change to address the growing congestion and costs of transportation delays to trade and tourism associated with the Greater Vancouver Gateway Corridor.

The paper outlines the significance of the Gateway to the local and provincial economy and emphasizes the broader role it plays as a vital part of the national transportation system. The presentation contends that the cost of transportation is particularly significant for Western Canada requiring that the system be as efficient as possible.

The presentation highlights the difference in government support for the transportation system in the United States versus Canada which is reflected in US fiscal and taxation policies designed to enhance and develop the transportation system in the United States. The paper proposes that what is required is a "sea change" in government's policies towards transportation and that Canadian provincial and federal governments work together and give consideration to adopting some of the tools used in the States to promote the development of the transportation system in Canada.

## *International Competitiveness of Western Canadian Transportation*

**A report prepared by Transport Institute, University of Manitoba for Western Economic Diversification Canada, November 1994.**
This study provides 1) a reference document on the current systems for transporting western Canadian commodities to the West Coast and the extent of the diversion of traffic to US routes and 2) a determination of the competitiveness of the western Canadian transportation industry in carrying goods from origins in western Canada to port destinations. The study is essentially a research document to provide factual evidence as a basis for policy development and it does not therefore contain policy recommendations.

The main findings of the study were that:

- At the time of the study, there was little diversion of Canadian West Coast traffic to US transport routes, with the exception of containers. This is primarily due to the fact that service times and rates from US Pacific Coast ports to Eastern Canada are fully competitive with time and rates through Vancouver. However, container capacity is being substantially increased and efforts are being made to retrieve the lost container trade.
- Apart from a small flow of potash to a Longview Washington, there is no movement of Canadian bulk exports through US ports. But there is a threat of further diversion and potash and sulphur producers are seriously examining US route options. There is no risk of diversion of Canadian grain until 1995 when the method of paying grain subsidies will change under GATT possibly making US routes more competitive.
- Diversion of traffic to US routes costs jobs in transportation, but it does not cause a loss of employment in the actual production of resource commodities. The results from loss of

production are much more serious than the results of traffic diversion. High freight rates have an adverse impact on industry, particularly coal and sulphur.

- If action could be taken to regain lost container traffic, stem the potential future loss of bulk products and containers to US transportation routes and avoid high costs of rail transport on the coal and sulphur industries, there could be a significant increase in jobs to Western Canada (6,400 jobs).
- The Canadian railways are not fully competitive with US railroads due to low productivity and very high taxation, equivalent to five to six percent of Canadian railway operating revenues as compared with US railroads. All stakeholders need to address the rationalization of the grain transportation and handling system.
- It is not possible to reach a definitive conclusion on the international competitiveness of Canadian West Coast ports. Vancouver has its problems - a reputation for poor labour relations, difficulties with road and rail access, and the financial demands on the port by the various levels of government – and its challenges – the growing tendency towards mega container ports and high railway freight rates. However, it also has its advantages including, its proximity to major resource producing areas of western Canada and the fact that its labour rates are fully competitive with the US.
- With a weak Canadian dollar it is much easier for the Canadian transportation system to be competitive, but if the Canadian dollar recovers to historic levels, all the problems identified in this report will be exacerbated.

## *Moving Forward – A Guide on the Importance of Transportation in Canada*

**Western Transportation Advisory Council and the Van Horne Institute, March 2000.**
The report is a comprehensive description of the Canadian transportation system and a discussion of the issues facing it. Targeted to Canadians unfamiliar with the Canadian transportation system, the guide is designed to inform typical Canadians about the critical role transportation plays in the continued development of the Canadian economy.

The report outlines the current trends and developments shaping the Canadian transportation system. These include

- The "customer rules"– understanding and anticipating customer needs is increasingly important because today's customers demand more;
- A new focus for governments – Under current government policy, reflected under the *Canada Transportation Act, 1996*, Canada uses a market approach – the system is allowed to respond freely to the changing needs of shippers and the travelling public. The federal government has divested itself, for the most part, from operating airports, ports, airlines, railways and other parts of the system which has placed increased responsibilities and financial pressures on provincial and municipal governments;
- "Bigger is better" – consolidation in the transportation sector has occurred raising profits and shareholder value and leading to the development of economies of scale necessary to compete on a global basis. This consolidation imposes pressures on companies to manage innovatively and to provide excellence in service as demanded by customers;

- "The price squeeze" – because commodity prices fluctuate widely, costs must be reduced to stay competitive, particularly when transportation is a large part of the value of the commodity. Transportation companies, in turn, must respond by reducing prices to allow producers to make money even at the bottom of the price cycle;
- the rise of value-added – lower commodity prices have motivated producers to add value to their products by further processing before shipment. This has bolstered western Canada's export performance.
- Rise of intermodal shipping – the use of two or more transportation modes in combination takes advantage of the strengths of different modes for seamless, secure shipping and represents a key growth area for ports such as Montreal, Vancouver and Halifax and Canadian railways and trucking firms;
- Our neighbour never sleeps – Canada competes vigorously with the US in North American and international markets. In 1998, the *US Transportation Equity Act* authorized federal transportation spending of $218 billion (US) by 2003 to improve the US transportation network. Canada needs to maintain a strong, modern and diverse transportation system both to win new business and to hold onto traffic and jobs that a more efficient US system might draw away;
- Corridor and gateway thinking – Gateways are the points of entry into major trading regions and corridors connect gateways as directly and efficiently as possible. Successful gateways and corridors feature consistent and simple regulation, common standards between jurisdictions and modes and appropriate infrastructure.
- Computers are everywhere – computers give today's customer an unheard of level of control and range of options which is having an enormous impact on transportation companies support systems and the manner in which customer service is managed.

With respect to ports, and shipping by water, the report indicates that the key issues are: concern among shippers that locally run ports will lead to higher costs; public concern about conflicting land use in port cities; the competitive position of Canadian ports versus US ports; the role of marine pilots (costs are too high and the rules too restrictive); cost recovery from services such as navigation aids and other Coast Guard services; and the cost and environmental impacts of dredging deeper channels.

The report suggests that the principle challenges facing Canada's transportation system are: competition (balancing interests of users with those of providers); investing for the future; government involvement (determining the appropriate role for each level of government); urban transportation (providing top quality passenger transportation networks while ensuring the movement of goods); making the best of latest transportation and communication technologies; balancing environmental concerns and economic priorities; and education and training.

The report suggests that the role of government depends to an extent on the assessment of how well the current model is working. The report contends that issues such as self-imposed trade barriers, non competitive regulations and higher total tax burden than that of competing countries needs to be assessed to determine whether there is the right business climate to stimulate innovation, investment and improvements in productivity.

## *Ports Task Force Report*

**Transport Canada, September 1999.**
This report flowed from the issues raised in the Estey Review regarding matters of strategic importance to the ports of Churchill, Prince Rupert, Vancouver and Thunder Bay and to other stakeholders with marine interests which are affected by the transportation and handling of western grain. The report of the Transport Canada Special Ports Task Force summarizes the opinions and positions of key stakeholders regarding critical issues and impediments to the maintenance of viable and healthy facilities at Canada' western grain ports.

The report concluded that a significant issue facing Canada's grain ports is the current reduction in grain export volumes and the shifts in current market demand for Canada's grain resulting in the majority of shipments travelling west and being handled by the Ports of Vancouver and Prince Rupert. Changes in export and handling patterns have resulted in under utilized capacity at Ports of Prince Rupert, Thunder Bay and Churchill, while the Port of Vancouver has suffered congestion.

The report also made conclusions and observations both of a general nature and specific to the four western grain handling ports. Following is a summary of the general findings of the report and the findings and observations relating to the Ports of Vancouver and Prince Rupert.

*General Conclusions and Observations:*

- It is important for grain shippers to retain market choices and have options during periods of growth. All four western grain ports are needed but choice of port should be based on fair commercial rules.
- There is sufficient handling capacity at each of the four key grain ports.
- There is the need for greater efficiencies in grain logistics and handling system to ensure better use of infrastructure to allow producers to pay lower costs for transportation.
- A more commercial grain transportation system should help to promote new alliances while allowing the Canadian Wheat Board to play a strong marketing role to ensure that it continues to facilitate shipments through less diversified and financially mature ports such as Churchill and Prince Rupert.
- Employees of port terminal operators and carrier employers must enter into a true partnership to make the Canadian system more efficient and competitive but also more stable and reliable.
- Internal competition must be addressed. Full or partial closure of the Port of Prince Rupert presents an economic development challenge for the entire region with a transfer of social and taxation costs. Compromise is needed and stakeholders should work together for the development of the region and the country, rather than simply for the protection of specific commercial interests.
- Competitiveness with US ports is an issue and Transport Canada has commissioned a study of the competitiveness of US versus Canadian grain ports in order to obtain information about whether the approach followed in Canada could place Canadian ports at a competitive disadvantage. [A summary of this study is included in this annotated bibliography]

- All parties must work together to determine whether current rates of taxation are sustainable; there is a need for various local jurisdictions to reconsider the taxation burden on ports and facilities.
- Grain trade represents the backbone of trade activities and lower volumes or port closures would have a substantive impact on other trades such as coal and iron ore, resulting in a global weakening of transportation options in the region.
- There is a recognition of the importance of stakeholder's groups such as gateway councils in advancing the development and growth of ports and improving port efficiency and productivity.
- The shift to cost recovery for marine service fees is an issue. The Canadian Transportation Agency has just concluded a review of the marine pilotage system. Treasury Board Secretariat has also announced that it will undertake a comprehensive review of marine service fees, including Coast Guard fees for vessels transporting bulk commodities. [A summary of the review of the marine pilotage review is included in this annotated bibliography; it is understood that preliminary discussions have been held with key stakeholder, but that the review of marine service fees is not yet underway]
- The increased level of accountability in the grain transportation and handling system should resolve many of the existing accountability problems in the system and increased use and application of current information technology should facilitate better coordination of grain handling.

*Findings and Observations Respecting the Port of Vancouver*

The strengths of the Port of Vancouver include its ability to handle a wide variety of products, including those that required specialized handling, and its growing capacity for handling containers. However, the Port of Vancouver is also subject to the following issues, challenges and impediments:

- Congestion of traffic in BC lower mainland and complexity of relationships and delivery requirements for grain present significant operating problems and loss of capacity in Port of Vancouver. The physical limitations of rail yards for storing and switching cars and the demands of shippers of all other commodities strain the railway operations. The report suggests that selective investments in infrastructure (possibility of a terminal railway to take over joint rail operations at Vancouver and service terminals) and improved systems and other reforms could alleviate some congestion problems, but the density of residential and commercial development in the Vancouver makes expansion of existing facilities less likely.
- Establishing contracts for performance throughout the transportation and handling system, with financial incentives and penalties, is widely seen as a way to improve throughput at Vancouver. It has also been proposed that better information management to coordinate the grain programmed in the country and subsequently arriving at port with vessel demands could improve throughput within the current infrastructure.
- The proliferation of number and grades of grain and the need to handle the product (segregation and sorting) to meet marketers specifications also places pressure on Vancouver. Though it is suggested that segregation and sorting be done close to source, there is not enough land alongside tidewater to do it in port. Although the terminals claim otherwise, many parties feel that the storage capacity at Vancouver terminals is insufficient.

- Achieving a level playing field with the US ports is a major concern to Vancouver stakeholders. Stakeholders are concerned that if operational difficulties limit the ability to achieve target throughput levels at Vancouver shippers may consider other options. Lower capital investment charges and lower local taxation enjoyed by US ports provide an incentive for investment in US ports facilities that may attract Canadian business. "With difficulty in increasing the infrastructure at Vancouver and little money to do so if it were possible, Vancouver's challenge is to become more efficient within its current structure."
- Labour is an issue for the Port of Vancouver, both in terms of the effect of labour disruptions on Vancouver throughput and in terms of overall labour costs. Though grain handler and long-shore rates are lower at Vancouver, US Pacific Northwest terminals employ far fewer staff compared to Vancouver facilities.
- Local taxation and marine service charges, including the cost of pilotage, are particularly contentious issues for Vancouver stakeholders. Some stakeholders believe that pilotage costs could be lowered under a competitive contract system versus the current regulated monopoly. Municipal taxation for Vancouver terminals is estimated to be between two and ten times higher than that assessed against it Pacific Northwest competitors.
- Urban encroachment is also of particular concern to the Port of Vancouver. There is increasing pressure to use waterfront land for housing and recreational use and resident's concerns about noise, unsightly structures and pollution frustrate stakeholders.

*Findings and Observations Respecting the Port of Prince Rupert*

The strengths of the Port of Prince Rupert include its state of the art grain handling facility, its available capacity, lack of congestion, ability to handle a mix of products and up to date coordination systems. However, the Port is also subject to a number of issues, challenges and impediments, such as:

- The high debt servicing cost of the long-term mortgage held by the Alberta government – a number of parties that the Task Force met with expressed concern that this arrangement discourages maximization of the facility when other options are available to shippers.
- Its ownership structure which results in Prince Rupert Grain being managed as a residual facility – because the five owners of Prince Rupert Grain (Agricore, Cargill, Richardson, Saskatchewan Wheat Pool and United Grain Growers) each own terminals in Vancouver they want to maximize their returns by using their facilities in Vancouver as opposed to pooling any handling margin at Prince Rupert. Some stakeholders felt this situation worked against the interests of farmers which would be better served by employing all West Coast export facilities efficiently and on an economic basis as noted in the Estey Review.
- High rail freight rates to Prince Rupert as compared to Vancouver.
- Local taxation and marine service charges – Prince Rupert's mill rate is relatively low compared to Vancouver's terminals , but its newer facility results in a higher assessment rate. Lower volume in shipments has resulted in higher taxation rate per tonne.
- The throughput based lease cost with the Prince Rupert Port Authority is an issue for Prince Rupert Grain. The terminal would like the lease rate based on the commercial value of the land, regardless of the throughput.

- Possible abandonment of rail lines in northern Alberta that would threaten the flow of grain to the Port of Prince Rupert.

## *Ports Costs and Productivity Factors , 1987-1991*

**Prepared by F.L. McCague, Cargomaster Services Inc., for the Ministry of Transportation and Highways, Province of British Columbia, June, 1992.**
The purpose of the report was to examine port costs and productivity levels and their affect on transportation patterns. The report identified and compared the factors affecting costs and productivity for British Columbia ports and US West Coast ports generally and separately for the coal, forest products, grain, potash/sulphur/fertilizer, methanol, automobile, steel, container, and cruise ship sector. The factors examined and compared included productivity and labour (longshore hours worked, tonnage and tonnes/hour and pay rates and charge out rates); ship disbursements or port charges; and terminal charges and stevedoring.

The report found, at the time, that shipper/supplier costs differences and productivity factors were generally similar on both sides of the border and that ports on both sides of the border have advantages and disadvantages varying by commodity. It concluded that in "no case are these factors alone significant enough to case major cargo diversions" and that "perceptions of labour unrest, cost advantages and service levels can be as significant as the actual factors." The report also concluded that macro economic factors including currency fluctuations, inland transportation rates, environmental regulations, local zoning restrictions and strategic considerations play a more significant role than the ports costs themselves. It recommended that port cost and productivity factors be monitored but that they should be viewed as just one element in the total transportation system.

## *Ports in Canada: Future Competitiveness*

**Background Paper, John Christopher, Science and Technology Division, Research Branch, Library of Parliament, December 1993.**
The report identifies and discusses the pressures affecting ports including, rapidly changing trading patterns, globalization of the marketplace and competition from American ports.

The greatest growth over the next decade is expected in container traffic. The container sector will be evidenced by abundance of competition, significant consolidation of companies and services, concentration on cost control and improvement in utilization and rates. Growth in commodities is expected to be modest, but subject to strong competition, some carrier consolidation, improved fleet utilization and continuing efforts to get costs under control. It is expected that western ports will capitalize on modest growth in grain trade, while the St. Lawrence and east coast will likely face contraction.

The report also suggests that there will be a general trend throughout the transportation environment respecting shipper's increasing service expectations for timeliness, integration, security, flexibility, fast response, value (service for cost) and reliability.

The report highlights the constant threat to Canadian ports of having traffic diverted through US ports. The report raises concerns respecting the high taxation levels for Canadian

transportation modes as compared to the US and the fact that rail expansion is being undertaken on a North/South basis rather than an East/West basis.

Given the intermodal nature of the Canadian transportation system there is a need to ensure the efficiency and effectiveness of the entire transportation system, including the rail networks, to support the important role that Canada's ports play in the national transportation system and Canada's ability to compete in world markets.

## *Port of Saint John Property Taxation Task Force*

**Researched and Written by: Adam McBride and Parul Shukla, Saint John Port Corporation, July, 1992.**
The purpose of the Port of Saint John Property Taxation Task Force was to investigate the evaluation methodology and levels for property taxation at the Port of Saint John and in other competing ports and to make recommendations to government. The Task Force was formed in response to growing concern about the escalation of property tax and the effect of this on the business levels, competitiveness and cargo levels at Saint John that would ultimately impact employment and the economy.

The report of the Task Force concluded that the Port of Saint John has a significant impact on the economy of the city of Saint John and the province of New Brunswick. It found that the users of the Port are burdened with unusually high property taxes as compared to other ports within and outside Canada and without measures to reverse the taxation burden, there would be an adverse impact on the Saint John and provincial economy.

The Task Force recommended a new assessment value basis for port land whereby tax would be levied in relation to tonnage handled for different categories of commodities, subject to a minimum tax level linked to the property assessment value to guarantee minimum property tax revenue[3].

## *Presentations and Recommendations for the Gateway '97 Forum*

**Prepared and Published by the Greater Vancouver Gateway Council, September 1997.**
This report is a summary of the proceedings at the Gateway '97 forum convened to identify and address challenges significant to the opportunities for growth in international air and cruise passengers, air, container and bulk cargoes through the Gateway and the Gateway's ability to effectively compete for existing business.

The following priorities for action relevant to Gateway ports and transportation system were identified by forum participants:

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[3] An amendment to the *Assessment Act* was made in the 1996/97 session of the New Brunswick legislature to provide an exemption for "land used in the longshore industry within an operating infrastructure for the purpose of loading, or discharging seagoing commercial cargo, but not including any land or buildings on such land used for the purposes of processing, manufacturing or power generation" from the calculation and levying of provincial taxes and rates as prescribed by regulation.

- To seek reintroduction and passage of Bill C-44; an Act for making sea-ports competitive, efficient and commercially oriented.
- To pursue the establishment of a comprehensive review of the grains handling and transportation system for both a legislative and logistical perspective.
- To develop and implement new approaches and partnerships necessary to address issues effecting the tax and cost competitiveness of the Gateway vis a vis its Pacific Northwest competitors (fuel taxes, local government taxation, government cost recovery/user fees, pubic subsidies and tax exempt bond financing for infrastructure investments.
- To seek the necessary regulatory changes to allow for the establishment of foreign trade zones in the Gateway.
- To develop new approaches and partnerships for infrastructure planning to address the issue of increasing congestion in the Lower Mainland, including the establishment of a Greater Vancouver Transportation Authority.

## *Review of Pilotage Issues – Final Report*

**Canadian Transportation Agency, August 30, 1999**
In August 1998, the Minister of Transport asked the Canadian Transportation Agency to conduct an examination of the marine pilotage system in Canada[4].

The report of the Canadian Transportation Agency contains 21 recommendations including[5] that:

- each pilotage authority must identify, in consultation with interested parties, any compulsory areas where a change in factors and circumstances related to designation justifies a detailed reexamination of the designation on the basis of a risk-based assessment;
- each pilotage authority maintain the current practice of assessing requests for waivers to compulsory pilotage on a case-by-case basis, in the interests of safety of navigation;
- the Pacific Pilotage Authority be required to report on the agreed-upon changes to the eight-hour, 105 mile regulation in its next annual report to the Minister of Transport;
- the current regional system for training and licensing pilots be maintained as the responsibility of each pilotage authority and that authorities be required to develop and implement a fair and reasonable system for assessing pilots' competence;

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[4] A May 1995 report of the House of Commons Standing Committee on Transportation (SCOT) concluded that organized pilotage was taking too big a share of marine sector resources and recommended a new pilotage regime. However, many stakeholders felt that significant improvements could be made within the existing pilotage structure. Following the passage of the *Canada Marine Act*, SCOT recommended a review of the pilotage section (Part 7) within a year of the coming into force of the Act. The Canadian Transportation Agency was asked to undertake an examination and resolve the outstanding issues.

[5] The recommendations outlined in the summary relate to general recommendations made with respect to all pilotage authorities or which are specific to the Pacific Pilotage Authority.

- that pilotage authorities should report annually on the pool of qualified pilot candidates and any problems or corrective action they have taken;
- the Pacific Pilotage Authority system for pilot licensing and dispatching be maintained and that pilotage services at Prince Rupert be provided on a rotational pilot assignment basis;
- pilotage authorities regularly examine, in consultation with all interested parties, all aspects of their operations, including financial, operational and planning issues that affect such parties, and report on the specific steps they have taken to improve efficiencies and further reduce costs;
- changes be made to the *Pilotage Act* in respect of the composition of the board of directors;
- authorities, pilots and the shipping industry establish a system for the early release of practical information about minor incidents;
- pilotage authorities establish a structured complaint handling procedures that ensure timely feedback about the outcomes and any action taken in response to the complaint;
- each pilotage authority submit to the Minister within six months of the tabling of this report, a implementation plan for adopting the recommendations in the report.

Transport Canada concurs, in principle, with all of the recommendations, though some recommendations cannot be implemented exactly as submitted and some of the proposed regulatory changes will require further legal scrutiny before being adopted and implemented.

## *"Ships Dock, People Work" – Economic Impact of Waterfront Industry on the Greater Vancouver Region*

**Compiled by West Georgia Consultants Ltd., for Vancouver Port Authority, December 1999.**

This report addresses the economic impact of the "waterfront" industry on the economy of the Greater Vancouver region. It makes special reference to the industry's impact on municipal property taxes for municipalities in the Greater Vancouver Regional District (GVRD) and the effect of tax levels on the industry's competitiveness and economic activity. This report does not contain original research but used existing data to determine and make assumptions regarding the economic impact of the waterfront industry.

The reports basic conclusions are that

- international trade is significant and will continue to grow;
- as world trade in products and commodities increase, business in the GVRD waterfront industry will continue to expand;
- the waterfront industry generates 43,000 direct jobs and 29,000 indirect jobs;
- the waterfront industry contributes about $4 billion directly to the provincial Gross Domestic Product and $10 billion in total if indirect and induced economic activity are included;

- the waterfront industry and its employees pay a total of $88 million in property taxes per year which equals 9 percent of the total GVRD property tax base, but that there is considerable variance among different municipalities in the GVRD;
- the waterfront industry competes with US west coast seaports which enjoy a favourable property tax situation;
- over time the capital cost advantages for US ports will translate into price advantages in global transportation markets and importers will choose to move their cargo through US ports resulting in a loss of jobs in the GVRD waterfront industry and consequent economic impact in the region.

## *Study of Public Charges and Financial Assistance at Ports*

**Prepared by Peat Marwick Stevenson & Kellogg and Peat Marwick Thorne for Transport Canada, June 7, 1993.**

The study assessed the magnitude of the differences that exist between Canada and the US in public charges payable by, and financial assistance available to, their respective ports. The report

- identified the types of public support to ports in Canada and the US, including tax revenues, capital and land grants, debt forgiveness, lower than market interest rate on loans, reduced charges for municipal services and issuance of tax exempt bonds and estimated the significance of this support in terms of port operating costs, as well as book values and capital costs;
- provided an inventory of local government, provincial/state and federal taxes paid by selected ports in Canada and the US; identified other payments to and charges by governments; and
- developed indicators to help determine the effect of taxes and other charges and subsidies on the ability of ports to attract cargo.

The study concluded that government support can have a significant impact on the competitive position of US and Canadian ports. On the West Coast, government support is clearly helping the ports of Seattle and Tacoma; it is making them more competitive and is considerably hindering the Port of Vancouver. The effect of this support is even more significant if all government support and charges were attributed to container operations.

The taxation regimes are not considered to be significant factors on the competitive situation of Canada versus US ports if forced contributions by port authorities to governments in both Canada and the US are excluded. However, the trend to pay contributions to government appears to be increasing and as such taxation and associated contributions to government may have a more significant impact on competitiveness of Canada versus US ports in the future.

The report also recommended that government policy in the area of indirect government support and charges to ports be closely monitored because indirect support and charges may have a significant impact on the competitive situation of Canadian versus US ports.

## *The Working Waterfront*

**Report of the Industrial Waterfront Working Group, District of North Vancouver Waterfront Task Force, April 1999.**
This report recognizes the importance of the Port of Vancouver and port industries to the national and local economy. It identifies the challenges threatening the waterfront industry in the District of North Vancouver (DNV) and makes recommendations for action that must be taken by DNV to improve the environment in which these businesses operate.

The issues identified in the report include:

- Land use – zoning regulations that do not reflect the reality of industry needs; inconsistencies and costly and lengthy delays in obtaining approvals for industrial development and encroachment of non-industrial users into industrial areas;
- Property Taxation burden – the DNV has one of the highest industrial tax rates in the GVRD and over the years has shifted the tax burden onto major industry thus impacting the industry's competitiveness and, ultimately, its viability;
- Transportation Access and Services – inadequate road access, conflict between local and industrial traffic, congestion of rail corridors and DNV's lack of understanding of goods movement issues;
- Public Access to Waterfront – desire of public to have greater access to DNV waterfront and concerns of industry about impact of such access in terms of public safety and security; and
- Environmental Issues – there is a gap in understanding between community groups and industrial concerns regarding environmental issues and lack of clarity and consistency of environmental regulation;

The report makes extensive recommendations including

- The official community plan and zoning bylaw must recognize the legitimacy of the waterfront industry;
- An economic impact assessment should be undertaken to document the land requirements of industry and related backup property (interface or buffer zones) and to assess the DNV waterfront industry's economic impact;
- Improvements must be made to the planning process to allow for industrial input and to make the process more timely;
- The need for a reduction in the tax burden on waterfront industries;
- The preparation of an independent analysis of the consumption of tax-supported municipal services by the various property classes;
- The need for a coordinated approach and responsibility to addressing transportation access and services;
- The need for greater involvement by waterfront industry in transportation planning and the implementation of initiatives affecting road and rail access;
- The need to improve waterfront access for the public where there is little risk; and
- The need to involve industry and the community together in the development of environmental policies and regulations.